BARCLAYS PLC
Form 6-K
March 24, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13A-16 OR 15D-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

24 March 2009

Barclays PLC

(Name of Registrant)

1 Churchill Place

London E14 5HP

England

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

This Report on Form 6-K filed by Barclays PLC.

The Report comprises:

Information distributed to shareholders and furnished pursuant to General Instruction B to the General Instructions to Form 6-K.

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
1	Barclays PLC Notice of Annual General Meeting 2009
2	Barclays PLC Proxy Form for the Annual General Meeting 2009
3	Barclays PLC Sharestore Proxy Form for the Annual General Meeting 2009
4	Barclays PLC Annual Report 2008

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

BARCLAYS PLC
(Registrant)

Date: March 24, 2009

By: /s/ Marie Smith
Name: Marie Smith
Title: Assistant Secretary

We thank our customers and clients for the business they directed to Barclays in 2008. High levels of activity on their behalf have enabled us to report substantial profit generation in difficult conditions. Our priorities in 2008 were (and remain): to stay close to customers and clients; to manage our risks; and to progress strategy.

John Varley

Group Chief Executive

www.barclays.com/annualreport08

In a very difficult economic environment in 2008, Barclays has steered a course that has enabled us to be solidly profitable despite strong headwinds. We are well positioned to maintain Barclays competitive strengths through the undoubted challenges that will come in 2009 and beyond.

Marcus Agius

Group Chairman

We re committed to supporting customers through the current economic climate, running over 800 savings seminars for customers in 2008.

We increased lending to social housing projects by over £2 billion.

51° 30' 16"N
London, UK 12pm GMT

50° 48' 00"N
Portsmouth, UK 12pm GMT

Highlights of the year

Group profit before tax was £6,077m, down 14% on 2007. Profit included:

Gains on acquisitions of £2,406m, including £2,262m relating to Lehman Brothers North American businesses

Profit on disposal of the closed life assurance book of £326m

Gains on Visa IPO and sales of shares in MasterCard of £291m

Gross credit market losses and impairment of £8,053m

Gains on own credit of £1,663m

Global Retail and Commercial Banking profit before tax increased 6% to £4,367m

UK lending increased to both retail and corporate customers

Strengthened international presence in Barclaycard, Western Europe and Emerging Markets

Investment Banking and Investment Management profit before tax was £2,568m, down 24% reflecting significant gain on acquisition and disposal and the impact of credit market dislocation

Barclays Capital s strategy of diversification by geography and business accelerated through the acquisition of Lehman Brothers North American businesses

There were strong net new asset flows into Barclays Wealth and Barclays Global Investors despite declines in equity markets

Group balance sheet growth was driven by over £900bn derivative gross-up, growth in loans and advances of £124bn and impact of foreign exchange rates on non-Sterling assets

Risk weighted assets increased 22% (£79bn) to £433bn reflecting:

the significant depreciation in Sterling relative to both the US Dollar and the Euro

procyclicality: macroeconomic indicators generally, and corporate credit conditions specifically, deteriorated towards the end of 2008 leading to ratings declines

Capital ratios were strengthened through the raising of £13.6bn of Tier 1 capital. The year-end pro forma Tier 1 capital ratio was 9.7% and the pro forma Equity Tier 1 ratio was 6.7%

Barclays targets reduced adjusted gross leverage and capital ratios significantly ahead of regulatory requirements

Income statement highlights

For the year ended 31st December

	2008	2007	2006
	£m	£m	£m
Total income net of insurance claims	23,115	23,000	21,595
Impairment charges and other credit provisions	(5,419)	(2,795)	(2,154)
Operating expenses	(14,366)	(13,199)	(12,674)
Gains on acquisitions	2,406		
Profit before tax	6,077	7,076	7,136
Profit attributable to equity holders of the parent	4,382	4,417	4,571
Basic earnings per share	59.3p	68.9p	71.9p
Dividend per ordinary share	11.5p	34.0p	31.0p
Return on average shareholders equity	16.5%	20.3%	24.7%
Cost:income ratio	62%	57%	59%
Number of staff	156,300	134,900	122,600

Income

Profit before tax

2

Business review

Barclays today	4
Key performance indicators	6
Group Chairman s statement	10
Group Chief Executive s review	12
Financial review	16
Corporate sustainability	65
Our people	67
Risk management	68

Building the best bank in the UK

Barclaycard contactless technology

In 2008 Barclaycard issued over one million contactless payments cards in the UK, with more than 7,000 shops now having the technology to use the cards installed.

The cards enable people to pay for items costing £10 or less by simply swiping them against a sensor and Barclaycard research shows 98% of people with a contactless payment card think it is easy to use and 88% think it speeds up payment times.

Number of contactless cards

1m+

51° 30' 18"N

London, UK 12pm GMT

Barclays today

Listed in London and New York, Barclays is a major

global financial services provider engaged in retail

and commercial banking, credit cards, investment

banking, wealth management and investment

management services with an extensive international

presence in Europe, United States, Africa and Asia.

With a strong long-term credit rating and over 300 years

of history and expertise in banking, Barclays operates

in over 50 countries and employs 156,000 people.

Barclays moves, lends, invests and protects money

for 48 million customers and clients worldwide.
Senior Management

Global Retail and Commercial Banking

UK Retail Banking
One of the largest retail banks in the UK with over 1,700 branches, 15 million personal customers and 660,000 small business

customers.

Profit before tax

Barclays Commercial Bank
Barclays Commercial Bank serves over 81,000 business clients through a network of relationship and industry sector specialists.

Profit before tax

Barclaycard
Barclaycard launched the first credit card in the UK in 1966. It now has 23 million customers in the UK, across
Europe and the United States.

Profit before tax

GRCB   Western Europe
GRCB   Western Europe serves two million retail, premier, card, SME and corporate customers in Spain, Portugal, France and Italy through nearly 1,200 distribution points.

Profit before tax

GRCB   Emerging Markets
A rapidly growing part of the business   opening over 280 distribution points in 2008 and providing full banking services to over four million customers across Africa, Russia, the Middle East and Asia.

Profit before tax

Number of customers	Number of customers	Number of customers	Number of customers	Number of customers

Diversified operations

Investment Banking and Investment Management

GRCB Absa
One of South Africa s largest financial services groups with over 1,100 distribution points and over 10 million retail customers offering a complete range of banking, bancassurance and wealth management products.

Barclays Capital
Barclays investment banking division with the global reach, advisory services and distribution power to meet the needs of clients worldwide, holding top three positions in US capital markets and globally in commodities, foreign exchange, fund-linked derivatives, interest rate trading and investment.

Barclays Global Investors
One of the world s largest asset managers with US$1.5 trillion assets under management and the global product leader in exchange traded funds (iShares).

Barclays Wealth
Barclays Wealth serves clients worldwide, providing international and private banking, fiduciary services, investment management and brokerage. It is the UK s leading wealth manager by client assets and has offices across the Americas following the acquisition of Lehman Brothers Private Investment Management.

Profit before tax

Profit before tax

Profit before tax

Profit before tax

Number of customers

Number of clients generating more than £1m income

Assets under management

Client assets

Key performance indicators

Financial KPIs

Definition	Why it s important to the business and management			
Profit before tax	Profit before tax is a key indicator of financial	2006	2007	2008
Profit before tax is one of the two primary profitability measures used to assess performance and represents total income less impairment charges and operating expenses.	performance to the majority of our stakeholders.	£7,136m	£7,076m	**£6,077m**
Economic profit	Barclays believes that economic profit			
Economic Profit (EP) is the other primary profitability measure used by Barclays. EP is profit after tax and minority interests less a capital charge (average shareholders equity and goodwill excluding minority interests multiplied by the Group cost of capital).	encourages both profitable growth and the efficient use of capital. Barclays has a set of four year performance goals for the period 2008 to 2011 inclusive. The primary goal is to achieve compound annual growth in economic profit in the range of 5% to 10% (£9.3bn to £10.6bn of cumulative economic profit) over the 2008 to 2011 goal period. Given the increase in the cost of capital and regulatory capital requirements in 2008 we intend to publish new goals in 2009.			
Shareholder returns Total shareholder return (TSR) is defined as the value created for shareholders through share price appreciation, plus reinvested dividend payments. We compare Barclays performance with a group of international peers and aim for top quartile performance. Return on average shareholders equity is calculated as profit after tax divided by the average shareholders equity during the year, which is made up of share capital, retained earnings and other reserves.	These measures indicate the returns shareholders are receiving for their investment in Barclays both in terms of relative share price movements and the business performance. These metrics demonstrate the alignment of Barclays strategy and operations with the interests of shareholders.	Total shareholder return		
		2006	2007	2008
		2nd quartile	3rd quartile	**2nd quartile**
		Return on average shareholders equity		

2006	2007	2008
24.7%	20.3%	**16.5%**

Capital ratios

Capital requirements are part of the regulatory framework governing how banks and depository institutions are managed. Capital ratios express a bank s capital as a percentage of its risk weighted assets. Tier 1 capital is defined by the UK FSA with Equity Tier 1 broadly being tangible shareholders funds within Tier 1. The 2008 pro-forma ratios reflect the conversion of Mandatorily Convertible Notes and inclusion of all innovative instruments in Tier 1 capital.

The Group s capital management activities seek to maximise shareholders value by optimising the level and mix of its capital resources.

The Group s capital management objectives are to:

- Maintain sufficient capital resources to meet the minimum regulatory capital requirements set by the UK FSA and the US Federal Reserve Bank s requirements that a financial holding company be well capitalised
- Maintain sufficient capital resources to support the Group s Risk Appetite and economic capital requirements
- Support the Group s credit rating
- Ensure locally regulated subsidiaries can meet their minimum capital requirements
- Allocate capital to businesses to support the Group s strategic objectives, including optimising returns on economic and regulatory capital.

We expect to maintain our Equity Tier 1 and Tier 1 ratios at levels which significantly exceed the current minimum requirements

	2006	2007	2008	Pro-forma 2008
Equity Tier 1[a]	5.3%	5.1%	**5.8%**	**6.7%**
Tier 1[a]	7.7%	7.6%	**8.6%**	**9.7%**

Note

a Capital ratios for 2008 and 2007 are calculated on a Basel II basis, whilst the 2006

of the UK FSA for the duration of the current period of financial and economic stress.

ratios are on a Basel I basis

Adjusted Gross Leverage

Adjusted gross leverage is defined as the multiple of adjusted total tangible assets over total qualifying Tier 1 capital. Adjusted total tangible assets are total assets less derivative counterparty netting, assets under management on the balance sheet, settlement balances, goodwill and intangible assets. Tier 1 capital is defined by the UK FSA. The 2008 Pro forma ratio reflects the conversion of Mandatorily Convertible Notes and inclusion of all innovative instruments in Tier 1 capital.

Barclays believes that there will be more capital and less leverage in the banking system, as a key measure of stability, which is consistent with the views of regulators and investors. Barclays expects adjusted gross leverage to reduce further over time.

2007	2008	Pro-forma 2008
33x	**28x**	**24x**

Strategic KPIs

Build the best bank in the UK

Definition	Why it s important to the business and management			
UK Retail Banking Customer Satisfaction The Retail Banking Service Monitor tracks satisfaction amongst Barclays customers. Approximately 13,000 customers a month are researched for this study. The Satisfaction score is measured using the percentage of customers who state they are Very or Completely satisfied with Barclays. We also benchmark our performance in comparison with competitors using syndicated or directly commissioned research.	Putting the customer first and improving customer service is fundamental to our goal of being the UK s best bank. Customer satisfaction targets are set at a strategic business unit level and business area action plans are developed through the continuous tracking of customer satisfaction and complaints feedback. Since June 2008 customer satisfaction and advocacy have been on an increasing trend as a result of significant improvements to our service and innovations in our product offerings.			
Net new lending in Barclays Commercial Bank The net new lending percentage represents the increase in our loans and advances to customers during the year.	Building the best bank in the UK means we are there for our customers. We have increased our lending to UK corporate customers even during the current economic conditions.	2006 +8%	2007 +14%	2008 **+10%**
UK Retail Banking cost:income ratio target Cost:income ratio is defined as operating expenses compared to total income net of insurance claims.	It is a measure management use to assess the productivity of the business operations. In February 2008 we targeted improving the UK Retail Banking cost:income ratio by a further three percentage points from 57% over the course of the next three years.	2008 58%	2007 57%	2008 **56%**

Strategic KPIs

Accelerate growth of global businesses

Definition	Why it s important to the business and management			
Barclaycard International number of customers The total number of customers split between UK and non-UK.	Barclaycard is one of Europe s largest multi-branded credit card businesses, with a fast growing business in the United States and South Africa. In 2003 we targeted growing Barclaycard s international operations to the same scale as its UK business over 10 years. This KPI demonstrates how this target is being achieved.			
Investment Banking and Investment Management Income	The Investment Banking and Investment Management division contains the majority of our global businesses and income is a key indicator of growth in this area. Including net credit market	2006 £9,092m	2007 £10,332m	2008 **£8,399m**

The total income from the businesses which make up Investment Banking and Investment Management; being Barclays Capital, Barclays Global Investors and Barclays Wealth. write-downs income in 2008 was £8,399m (2007: £10,332m). Excluding these write-downs income in 2008 was £11,593m (2007: £11,185m).

Key performance indicators

Strategic KPIs

Develop Retail and Commercial Banking activities in selected countries outside the UK

Definition	Why it s important to the business and management	2006	2007	2008
Number of distribution outlets outside the UK Represents total number of branches and sales centres outside the UK.	This represents the growth in our footprint around the world, providing a clear indication of the development of our activities outside the UK. The addition of new distribution outlets drives the increase in customer numbers.	1,705	2,349	**3,158**
Proportion of Global Retail and Commercial Banking international income Percentage of total Global Retail and Commercial Banking income earned outside the UK.	This demonstrates the successful execution on Barclays strategy of diversifying our business base by geography over time to achieve higher growth.			

Strategic KPIs

Enhance operational excellence

Definition	Why it s important to the business and management
Risk management **Loan loss rate** The loan loss rate represents the impairment charge on loans and advances as a proportion of the balances.	The granting of credit is one of Barclays major sources of income and its most significant risk. The loan loss rate is an indicator of the cost of granting credit.
Cost management **cost:income ratio by business** **productivity benchmarking** Cost:income ratio is defined as operating expenses compared to total income net of insurance claims. This is compared to a peer set relevant for each business.	It is a measure management use to assess the productivity of the business operations. We target a top quartile cost:income ratio of each of our businesses relative to their peers.

Sustainability

Definition	Why it s important to the business and management
Global investment in our communities Barclays total contribution to supporting the communities where we operate.	Why it s important to the business and management Investing in the communities in which we operate is an integral part of Barclays sustainability strategy. We are committed to maintaining investment in our communities for the long-term both in good times and in bad. This metric demonstrates our commitment over time.

Our People

Definition	Why it s important to the business and management	2006	2007	2008
Number of colleagues involved in fundraising and volunteering initiatives The total number of Barclays employees taking part in volunteering, giving and fundraising activities with Barclays support.	Barclays community investment programme aims to engage and support colleagues around the world to get involved with our main partnerships, as well as the local causes they care about. Harnessing their energy, time and skills delivers real benefit to local communities, to their own personal development and to their engagement with Barclays.	33,000	44,000	**57,000**
Employee opinion survey for Global Retail and Commercial Banking and Group Centre A survey of employees, the results of which give demographic and diversity information as well as an indication of employee perceptions in four key areas: Barclays Top Leadership, Business Unit Leadership, Customer Focus and Employee Engagement. The results are analysed to show year on year trends of employee opinion and are benchmarked against other global financial services organisations and high performing organisations.	The results of the survey provide leaders with insight into employee views on key business drivers from which they can establish action plans for improvements based on both strengths and weaknesses identified.			

Group Chairman s statement

2008 was an extraordinarily difficult year for the financial services industry with the second half in particular seeing a period of exceptional instability. It was a year that saw the rescue of a number of banks around the world and significant action being taken by governments globally to rebuild confidence in the sector including, in the UK, the government taking large shareholdings in two major banks.

Barclays was impacted by the difficult environment we undertook two significant capital raisings during the year and incurred gross losses from credit market write-downs of approximately £8bn. However, a profit before tax for the year of just over £6bn, whilst benefiting from a number of gains on acquisitions and disposals, remains a resilient performance in such a difficult environment and reflects a continuing focus by all our people on servicing the needs of our customers and clients. We were able to absorb the level of credit market write-downs through the strong income performance of the Group. As a result of raising over £13bn in equity and Tier 1 capital in 2008, our capital base has been substantially strengthened and we have over £37bn of equity capital and reserves. This scale of loss absorption capacity, combined with the underlying profitability of the Group, gives us confidence that our capital resources are sufficient, even in these difficult markets. Our liquidity position remains strong.

The share price performance during the year was acutely disappointing. Share prices in the sector as a whole were badly hit during the year by a number of factors, including concerns over the profit outlook given the macroeconomic environment and uncertainty over banks capital strength. It is of little consolation that in terms of total shareholder return we out-performed the majority of our UK peers and a number of our global competitors. The Board is committed to creating the conditions to allow the share price to recover and to resume dividend payments in the second half of 2009, following the decision not to pay a final dividend for 2008.

The difficult market conditions for bank shares has continued in 2009. We welcomed the announcements made by HM Treasury and the FSA in January designed to help the UK economy through a number of initiatives in the areas of capital ratios, funding and asset protection. Despite these, market confidence remains extremely fragile.

As a Board, we very much regret what has happened to the banking sector in general and to Barclays share price in particular. We fully recognise that banks must review their internal governance systems and remuneration structures to ensure there can be no repeat of the turmoil that has impacted the industry, and the wider economy, over the last 18 months. The Board HR and Remuneration Committee is reviewing compensation policy and structures across the Group to ensure maximum alignment both with the interests of our shareholders and with best practice. The Board is also committed to ensuring that Barclays plays its full part in contributing to the restoration of the health of the global economy and, with that, the reputation of the industry. In particular, the capital position and ongoing profitability of the Group is enabling us to support our customers in the difficult economic environment. For example, our lending to UK consumers and UK commercial clients increased by 16% and 14% respectively in 2008.

Market Environment

The announcement that Lehman Brothers would file for bankruptcy in September was the start of a period of extreme instability in global stock markets and a crisis of confidence in the banking system. Credit market conditions became very difficult and a number of banks around the world required government assistance. In October, the UK authorities decided to take action to stabilise the UK financial services industry. The capital plans and balance sheets of all the UK banks were subject to severe stress tests and additional capital was required to be raised to ensure that their ratios would remain prudent even in the severest downturn. This represented a significant change in the capital framework across the UK banking industry and obliged Barclays to raise capital well beyond the level we had previously agreed with our regulators.

In my speech at the General Meeting to approve the capital raising in November (which is available at *www.barclays.com*), we also recognised that some of our shareholders were unhappy about some aspects of the November capital raising. This unhappiness is a matter of great regret to us. I set out in my introduction to the Corporate Governance Report on page

157 some further information on the background to the November capital raising, the governance processes surrounding the decisions that were taken and the Board s appreciation of the support received from shareholders in very difficult circumstances. I would like to give my personal assurance that the Board considered the capital raising very carefully there were 12 meetings of the Board in October and November to discuss the matter, ensuring appropriate corporate governance as we sought to react to the circumstances prevailing at the time. The Board regrets, however, that the capital raising denied Barclays existing shareholders their full rights of pre-emption and that our private shareholders were not able to participate in the raising.

Board Changes

As I stated in my report last year, Sir Michael Rake and Patience Wheatcroft joined the Board on 1st January 2008 and Dr Danie Cronjé retired from the Board at the Annual General Meeting. We announced in January 2009 that Sir Nigel Rudd had advised us that he did not intend seeking re-election at the forthcoming AGM. Sir Nigel has served as a Director for nearly 13 years and Barclays has benefited enormously from his commercial experience and wise counsel. He will be greatly missed. I would also like to pay tribute to Professor Dame Sandra Dawson, who will also be retiring as a Director at the AGM. Sandra has served with distinction as both a Director and member of the Board Audit Committee. Stephen Russell will also retire from the Board in October after nine years excellent service, particularly as Chairman of the Board Audit Committee.

We have also announced the appointment of Simon Fraser as a new non-executive Director. Simon held a number of positions during his career at Fidelity International, including President of Fidelity s European and UK institutional business and Global Chief Investment Officer. He will bring valuable fund management and institutional shareholder experience to the Board.

Maintaining our commitment to sustainability

At no other time in our history have the values of sustainability mattered more to our company and to our stakeholders.

We focus our commitment in this important area on our ability to support our customers well in good times and bad; on our role as an equal opportunity company employing all races, creed, colour and orientation; on our commitment to play our part in managing the impact of climate change; and on our role as a responsible global citizen.

We report on our progress on all these areas within the report (pages 66 to 68) and in our Sustainability Review 2008, which will be published in April 2009.

Key achievements for 2008 included maintaining responsible lending to individuals and businesses, a steady growth in the number of low-income bank accounts in many of our markets including the UK, developing diversity strategies and action plans tailored to local markets across our businesses and maintaining progress towards our goal that the global banking operations of Barclays be carbon neutral by the end of 2009.

There is a universal benefit to be obtained from a return to confidence in the banking system and from the restoration of the reputation of the banking industry in general. I give you my assurance that we at Barclays will do our utmost to play our part in procuring this vital objective.

Marcus Agius
Group Chairman
Barclays PLC

Group Chief Executive s review

I reported in our interim results that the conditions in the market in the preceding 12 months were as difficult as any that we had experienced in many years. In the six months since, we have seen the bankruptcy of Lehman Brothers, substantial action taken by the UK and other governments, and a progressive deterioration in the consensus expectations for global economic prospects. The environment has been extraordinarily challenging for nearly two years, and remains so.

We have managed Barclays carefully through this period. We have remained solidly profitable. Although the 2008 profit before tax of £6.1bn includes several individually significant and one-off items, our performance during the year has mainly been driven by ongoing business. Where we have had the opportunity to generate non-recurring profits, we have done so, including a gain on the acquisition of Lehman Brothers North American businesses, a gain on the acquisition of the Goldfish credit card business in the UK, gains on selling the UK Closed Life Fund and from the Visa IPO and sale of MasterCard shares. These items, combined with record income generation across the Group, have enabled us to absorb substantial write-downs on our credit market assets and still post substantial profits.

But our shareholders have suffered a lot. Although we cannot control the price at which our shares trade in the market, we greatly regret the fact that the total return on our shares during 2008 has been heavily negative, and we acknowledge with regret, also, our decision not to recommend the payment of a final dividend for 2008, which is one of the consequences of the increased capital requirements introduced by the UK Financial Services Authority in October.

These facts have influenced significantly our compensation decisions in respect of 2008. This has resulted in the incentive payments across Barclays being significantly lower in 2008 than in 2007; in the application of high differentiation in incentive pools, based both on business and individual performance; and in our delivering a significant proportion of compensation for the most senior individuals across Barclays over multiple years. Executive Directors will receive no bonuses for 2008. For 2009 and beyond, we are reviewing our compensation policies and practices to ensure that they evolve appropriately. Our endeavour as we do this is to maximise the alignment between these and the interests of our owners, as well as to ensure that our compensation policies and practices are appropriately benchmarked to changing best practice in the industry.

Our priorities in 2008 were (and remain): to stay close to customers and clients; to manage our risks; and to progress strategy.

2008 Priorities

Our approach of staying close to customers and clients is shown in the number of customers we serve in Global Retail and Commercial Banking,

which has increased from 39 million to 48 million; in the increase in our lending volumes, particularly in UK mortgages, where our net lending mortgage market share was 36%, in the Group as a whole where our loans and advances increased 32% to £510bn; and in sharply increased activity levels in Barclays Capital in interest rates, currency products and commodities.

Managing our risks through the unfolding crisis has been a significant focus through the year. In this Annual Report we have set out extensive details on the nature and quality of our loans and advances, as well as further detail on our credit market assets. We have worked hard to reduce these during the year. £9.4bn of our exposures were sold or redeemeda and, in addition, we have announced a total of £8.1bn in gross write-downs of these assets. Managing these exposures will continue to be a priority in 2009. We are confident of the valuations of these assets at the year end; whilst we expect there will be further charges as we work down these assets, we also expect that gross write-downs in 2009 will be lower than the levels of 2008.

In progressing strategy in 2008, we have announced a number of acquisitions Lehman Brothers North American businesses, Goldfish in the UK, Expobank in Russia, Akita Bank in Indonesia and we also launched or expanded banking platforms in Pakistan and India. These steps will, we believe, have a significant collective impact in the future. We have also, of course, raised large amounts of new equity and other capital, increasing our shareholders equity by almost 50% during the year.

As we look forward to 2009 it is clear that the economic and business environment will remain very difficult, and the quality of our assets and risk management capability will again be tested. The scale of our market presence in the geographies where we do business means that we will not avoid the consequences of severe downturn. Although we have been careful over recent years to avoid inappropriate risk concentration in our major loan books in retail and commercial banking, our plans for 2009 assume that impairment will continue to be at a high level.

2009 Strategic Framework

Our framework for moving the strategy forward in 2009 has the following features:

Responsible corporate citizenship. Governments in the UK and elsewhere have taken significant steps to address the impacts of the financial crisis and recession, and we must work with the authorities and, of course, with our customers, to deal with the crisis in a way which is consistent with our obligations to shareholders.

We have committed to recommencing dividend payments during the second half of 2009. Thereafter, and as previously announced, dividend payments will be made on a quarterly basis. We will set out our dividend policy at the Annual General Meeting in April.

Note

a Includes redemption of £3.1bn leveraged finance exposure in January 2009.

We must ensure that our capital position is robust and our balance sheet well-managed. We set out within the Financial Review our approach to managing leverage in the balance sheet, and our expectations for capital ratios. For 2009, returns will rank ahead of growth.

To create good returns at this time, we must preserve strategic and operational choice. As conditions remain very difficult in 2009, we expect that there will be considerable value at stake for our shareholders in decisions that we take relating to resource utilisation, capital allocation and risk management. Our objective over time is to ensure that the cost of the capital we raised last November is covered many times over by the benefits of pursuing our strategy.

We must deliver solid profitability notwithstanding the global downturn. Our diversified income streams have served us well in recent years and have enabled us to absorb substantial costs from the financial crisis. We expect them to continue to do so.

We will seek to manage the composition of our profits, and capital allocation, to ensure that we optimise returns from our universal banking business model. What does this mean? It is clear to us that in the future there will be more capital in the banking system, and less leverage, particularly in capital markets businesses. This will be true at Barclays too, and will govern our approach to capital allocation and expected returns. We expect to see balance sheet utilisation by Barclays Capital fall over time, which will help us to deliver strengthening returns. We believe that the businesses that we have built from the integration of Lehman Brothers North American businesses and Barclays Capital will help in this regard, since the capital intensity of the advisory businesses in M&A and of the flow businesses in fixed income, currencies, equities and credit will be lower, once we have managed down our credit market exposures.

Goals

We set out last year our goals for economic profit for 2008 through 2011. Those were based on, amongst other things, the then regulatory capital requirements for the business and the then cost of equity. The regulatory capital requirements were significantly increased last year by the UK Financial Services Authority. The observed cost of equity has also increased. It is right, therefore, that we revisit our goals, to ensure that they are properly aligned with our new return and balance sheet objectives, and with the interests of our owners. We intend to publish revised goals in due course that reflect the changes to the environment in the past two years.

Outlook

We expect 2009 to be another challenging year with continuing downturns or recessions in many of the economies in which we are represented. In 2008 our profits were reduced by the impacts of substantial gross credit market losses. In 2009, we expect the impact of such credit market losses to be lower. Whilst we are confident in the relative quality of our major books of assets, we also expect the recessionary environments in the UK, Spain, South Africa and the US to increase the loan loss rates on our loans and advances.

Governments in the UK and elsewhere have taken significant measures to assist borrowers and lenders in response to the emerging recession, including reducing official interest rates. The low interest rate environment will have the impact of substantially reducing the spread generated on our retail and commercial banking deposits, particularly in the UK, but we expect the combined impact of these government measures to be positive for the economy in time.

2009 Trading

Customer and client activity levels were high in the first month of 2009, and we have had a good start to the year. In particular, the operating performance of Barclays Capital, benefiting from the now complete integration of the Lehman Brothers North American businesses, was extremely strong. The trends that lie behind the strong operating performance in Global Retail and Commercial Banking in 2008 were again observable in its performance in January.

Conclusion

I end this review by recording the Board s appreciation of the dedication and hard work of our 150,000 people. We are doing more business with more customers and clients than at any time in our history, and have generated substantial profits. That we have been able to do this reflects the continuing focus of Barclays employees on delivering high-quality service to clients and customers despite the difficult conditions of the year.

John Varley
Group Chief Executive

Financial review

Consolidated income statement	15
Income statement commentary	16
Consolidated balance sheet	25
Balance sheet commentary	26
Capital management	30
Additional financial disclosure	31
Deposits and short-term borrowings	31
Commitments and contractual obligations	32
Securities	33
Average balance sheet	34
Off-balance sheet arrangements	38
Critical accounting estimates	40
Analysis of results by business	43

Consolidated income statement

For the year ended 31st December

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m a
Net interest income	**11,469**	9,610	9,143	8,075	6,833
Net fee and commission income	**8,407**	7,708	7,177	5,705	4,847
Principal transactions	**2,009**	4,975	4,576	3,179	2,514
Net premiums from insurance contracts	**1,090**	1,011	1,060	872	1,042
Other income	**377**	188	214	147	131
Total income	**23,352**	23,492	22,170	17,978	15,367
Net claims and benefits incurred on insurance contracts	**(237)**	(492)	(575)	(645)	(1,259)
Total income net of insurance claims	**23,115**	23,000	21,595	17,333	14,108
Impairment charges and other credit provisions	**(5,419)**	(2,795)	(2,154)	(1,571)	(1,093)
Net income	**17,696**	20,205	19,441	15,762	13,015
Operating expenses	**(14,366)**	(13,199)	(12,674)	(10,527)	(8,536)
Share of post-tax results of associates and joint ventures	**14**	42	46	45	56
Profit before business acquisitions and disposals	**3,344**	7,048	6,813	5,280	4,535
Profit on disposal of subsidiaries, associates and joint ventures	**327**	28	323		45
Gains on acquisitions	**2,406**				
Profit before tax	**6,077**	7,076	7,136	5,280	4,580
Tax	**(790)**	(1,981)	(1,941)	(1,439)	(1,279)
Profit after tax	**5,287**	5,095	5,195	3,841	3,301
Profit attributable to minority interests	**905**	678	624	394	47
Profit attributable to equity holders of the parent	**4,382**	4,417	4,571	3,447	3,254
	5,287	5,095	5,195	3,841	3,301

Selected financial statistics

	2008	2007	2006	2005	2004
Basic earnings per share	**59.3p**	68.9p	71.9p	54.4p	51.0p
Diluted earnings per share	**57.5p**	66.7p	69.8p	52.6p	49.8p
Dividends per ordinary share	**11.5p**	34.0p	31.0p	26.6p	24.0p
Dividend payout ratio	**19.4%**	49.3%	43.1%	48.9%	47.1%
Profit attributable to the equity holders of the parent as a percentage of:					
average shareholders equity	**16.5%**	20.3%	24.7%	21.1%	21.7%
average total assets	**0.2%**	0.3%	0.4%	0.4%	0.5%
Cost: income ratio	**62%**	57%	59%	61%	61%
Cost: net income ratio	**81%**	65%	65%	67%	66%
Average United States Dollar exchange rate used in preparing the accounts	**1.86**	2.00	1.84	1.82	1.83
Average Euro exchange rate used in preparing the accounts	**1.26**	1.46	1.47	1.46	1.47
Average Rand exchange rate used in preparing the accounts	**15.17**	14.11	12.47	11.57	11.83

The financial information above is extracted from the published accounts for the last three years. This information should be read together with, and is qualified by reference to, the accounts and notes included in this report.

Note

a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

Income statement commentary

Income statement

Barclays delivered profit before tax of £6,077m in 2008, a decline of 14% on 2007. The results included the following significant items:

- gains on acquisitions of £2,406m, including £2,262m gain on acquisition of Lehman Brothers North American businesses
- profit on disposal of Barclays Closed UK Life assurance business of £326m
- gains on Visa IPO and sales of shares in MasterCard of £291m, distributed widely across the Group
- gross credit market losses and impairment of £8,053m, or £4,957m net of related income and hedges of £1,433m and gains on own credit of £1,663m

Profit after tax increased 4% to £5,287m. This reflected an effective tax rate of 13% (2007: 28%) primarily due to the gain on the acquisition of Lehman Brothers North American businesses of £2,262m in part being offset by carried forward US tax losses attributable to Barclays businesses. Earnings per share were 59.3p (2007: 68.9p), a decline of 14% from 2007, reflecting the impact of share issuance during 2008 on the weighted average number of shares in issue.

Income grew 1% to £23,115m. Income in Global Retail and Commercial Banking increased 17% and was particularly strong in businesses outside of the UK to which we have directed significant resource. Income in Investment Banking and Investment Management was down 19%. Barclays Capital was affected by very challenging market conditions in 2008, with income falling by £1,888m (27%) on 2007, reflecting gross losses of £6,290m relating to credit market assets, partially offset by gains of £1,663m on the fair valuation of notes issued by Barclays

Capital due to widening of credit spreads and £1,433m in related income and hedges. Excluding credit market related losses, gains on own credit and related income and hedges, income in Barclays Capital increased 6%.

Impairment charges and other credit provisions of £5,419m increased 94% on the prior year. Impairment charges included £1,763m arising from US sub-prime mortgages and other credit market exposures. Other wholesale impairment charges increased significantly as corporate credit conditions turned sharply worse. In Barclays Capital increased charges also arose in prime services, corporate lending and private equity. In Barclays Commercial Bank, increased impairment charges reflected the UK economy moving into recession. In the UK there was a moderate increase in impairment in UK Retail Banking as a result of book growth and a deteriorating economic environment. UK mortgage impairment charges remained low. There was a lower charge in UK cards as net flows into delinquency and arrears levels reduced. Significant impairment growth in our Global Retail and Commercial Banking businesses outside the UK reflected very strong book growth in recent years, and maturation of those portfolios, together with deteriorating credit conditions and rising delinquency rates in the US, South Africa and Spain.

Operating expenses increased 9% to £14,366m. We continued to invest in our distribution network in the Global Retail and Commercial Banking businesses. Expenses fell in Barclays Capital due to lower performance related costs. Expenses in Barclays Global Investors included selective support of liquidity products of £263m (2007: £80m). Group gains from property disposals were £148m (2007: £267m). Head office reflects £101m due to the cost of the contribution to the UK Financial Services Compensation Scheme. Underlying cost growth was well controlled. The Group cost:income ratio deteriorated by five percentage points to 62%.

Income statement commentary

Net interest income

2008/07

Group net interest income increased 19% (£1,859m) to £11,469m (2007: £9,610m) reflecting balance sheet growth across the Global Retail and Commercial Banking businesses and in particular very strong growth internationally driven by expansion of the distribution network and entrance into new markets. An increase in net interest income was also seen in Barclays Capital due to strong results from global loans and money markets.

Group net interest income includes the impact of structural hedges which function to reduce the impact of the volatility of short-term interest rate movements on equity and customer balances that do not re-price with market rates. The contribution of structural hedges relative to average base rates increased income by £117m (2007: £351m expense), largely due to the effect of the structural hedge on changes in interest rates.

2007/06

Group net interest income increased 5% (£467m) to £9,610m (2006: £9,143m) reflecting balance sheet growth across a number of businesses. The contribution of structural hedges relative to average base rates decreased to £351m expense (2006: £26m income), largely due to the effect of the structural hedge on changes in interest rates. Other interest expense principally includes interest on repurchase agreements and hedging activity.

Business margins

2008/07

UK Retail Banking assets margin increased five basis points to 1.25% (2007: 1.20%) reflecting increased returns from mortgages. The average liabilities margin declined 14 basis points to 2.01% (2007: 2.15%) reflecting the reductions in UK base rates in the second half of 2008.

Barclays Commercial Bank assets margin decreased 25 basis points to 1.55% (2007: 1.80%) due, in part, to a continued focus on lower risk term lending. The liabilities margin declined two basis points to 1.47% (2007: 1.49%) partly reflecting the reductions in UK base rates in the second half of 2008.

Barclaycard assets margin increased 41 basis points to 6.92% (2007: 6.51%) due to a change in the product mix with an increased weighting to card lending, following the decision to stop writing new business in FirstPlus.

GRCB Western Europe assets margin increased three basis points to 1.16% (2007: 1.13%) reflecting the focus on repricing assets and strong growth in unsecured lending resulting in change in the product mix. The liabilities margin decreased 40 basis points to 1.24% (2007: 1.64%) due to campaigns offering attractive deposit rates resulting in margin compression.

GRCB Emerging Markets assets margin decreased 167 basis points to 4.95% (2007: 6.62%) reflecting higher funding costs, partially offset by improvement in the product mix. The liabilities margin improved 142 basis points to 2.17% (2007: 0.75%) driven by a change in the product mix and a higher return from funding the assets.

GRCB Absa assets margin increased nine basis points to 2.79% (2007: 2.70%) as a result of a focus on pricing for risk and a change in the composition of the book, partially offset by the higher cost of wholesale

Net interest income

	2008	2007	2006
	£m	£m	£m
Cash and balances with central banks	174	145	91
Available for sale investments	2,355	2,580	2,811
Loans and advances to banks	1,267	1,416	903
Loans and advances to customers	23,754	19,559	16,290
Other	460	1,608	1,710
Interest income	28,010	25,308	21,805
Deposits from banks	(2,189)	(2,720)	(2,819)
Customer accounts	(6,697)	(4,110)	(3,076)
Debt securities in issue	(5,910)	(6,651)	(5,282)
Subordinated liabilities	(1,349)	(878)	(777)
Other	(396)	(1,339)	(708)
Interest expense	(16,541)	(15,698)	(12,662)
Net interest income	11,469	9,610	9,143

Average balances

	2008	2007	2006
	£m	£m	£m
UK Retail Banking assets	90,263	78,502	73,593
UK Retail Banking liabilities	85,892	81,848	76,498
Barclays Commercial Bank assets	61,710	53,947	52,330
Barclays Commercial Bank liabilities	47,624	46,367	44,839
Barclaycard assets	23,552	18,976	17,728
GRCB Western Europe assets	41,540	30,145	24,812
GRCB Western Europe liabilities	10,429	7,489	6,404
GRCB Emerging Markets assets	7,195	3,559	2,258
GRCB Emerging Markets liabilities	7,568	5,115	4,018
GRCB Absa assets	27,706	25,333	23,720
GRCB Absa liabilities	13,454	11,511	10,897
Barclays Wealth assets	9,749	7,403	5,543
Barclays Wealth liabilities	37,205	31,151	27,744

Business margins

	2008	2007	2006
	%	%	%
UK Retail Banking assets	1.25	1.20	1.32
UK Retail Banking liabilities	2.01	2.15	2.05
Barclays Commercial Bank assets	1.55	1.80	1.92
Barclays Commercial Bank liabilities	1.47	1.49	1.46
Barclaycard assets	6.92	6.51	7.05
GRCB Western Europe assets	1.16	1.13	1.11
GRCB Western Europe liabilities	1.24	1.64	1.70
GRCB Emerging Markets assets	4.95	6.62	8.46
GRCB Emerging Markets liabilities	2.17	0.75	0.93
GRCB Absa assets	2.79	2.70	2.81
GRCB Absa liabilities	3.06	3.21	2.87
Barclays Wealth assets	1.04	1.11	1.08
Barclays Wealth liabilities	0.95	1.03	1.10

funding. The liabilities margin decreased 15 basis points to 3.06% (2007: 3.21%) reflecting the emphasis on liquidity and strong growth in lower margin retail deposits.

Barclays Wealth assets margin decreased seven basis points to 1.04% (2007: 1.11%) reflecting changes in the product mix. The liabilities margin reduced by eight basis points to 0.95% (2007: 1.03%) driven by changes in the product mix and compression of margins as interest rates reduced during the second half of the year.

2007/06

UK Retail Banking assets margin decreased 12 basis points to 1.20% (2006: 1.32%) principally due to the increased proportion of mortgages and the contraction in unsecured loans. UK Retail Banking liabilities margin increased 10 basis points to 2.15% (2006: 2.05%) due to pricing initiatives and changes in the product mix.

Barclays Commercial Bank assets margin decreased by 12 basis points to 1.80% (2006: 1.92%) due to changes in the product mix. Barclays Commercial Bank liabilities margin remained broadly stable at 1.49% (2006: 1.46%).

Barclaycard assets margin decreased 54 basis points to 6.51% (2006: 7.05%) due to higher average base rates across core markets and an increased weighting to secured lending.

GRCB Western Europe assets margin of 1.13% (2006: 1.11%) was broadly stable. The liabilities margin declined 6 basis points to 1.64% (2006: 1.70%) primarily driven by changes in product and country mix.

GRCB Emerging Markets asset margin declined 184 basis points to 6.62% (2006: 8.46%) reflecting competitive pricing to drive volume growth. The liabilities margin declined 18 basis points to 0.75% (2006: 0.93%) primarily driven by changes in product and country mix.

GRCB Absa assets margin decreased 11 basis points to 2.70% (2006: 2.81%) due to increased competition, increase in interest rates and changes in the product mix. The liabilities margin increased 34 basis points to 3.21% (2006: 2.87%) driven by a re-pricing of customer deposits and higher interest rates.

Barclays Wealth assets margin increased three basis points to 1.11% (2006: 1.08%) due to changes in the product mix. The liabilities margin decreased seven basis points to 1.03% (2006: 1.10%) due to competitive pricing.

Net fee and commission income

2008/07

Net fee and commission income increased 9% (£699m) to £8,407m (2007: £7,708m). Banking and credit related fees and commissions increased 13% (£845m) to £7,208m (2007: £6,363m), reflecting growth in Barclaycard International, increased fees from advisory and origination activities in Barclays Capital and increased foreign exchange, derivative and debt fees in Barclays Commercial Bank.

2007/06

Net fee and commission income increased 7% (£531m) to £7,708m (2006: £7,177m). Fee and commission income rose 8% (£673m) to £8,678m (2006: £8,005m) reflecting increased management and securities lending fees in Barclays Global Investors, increased client assets and higher transactional income in Barclays Wealth and higher income generated from lending fees in Barclays Commercial Bank. Fee income in Barclays Capital increased primarily due to the acquisition of HomEq.

Business net interest income

	2008 £m	2007 £m	2006 £m

UK Retail Banking assets	**1,132**	939	970
UK Retail Banking liabilities	**1,723**	1,763	1,566
Barclays Commercial Bank assets	**955**	970	1,005
Barclays Commercial Bank liabilities	**700**	693	655
Barclaycard assets	**1,629**	1,236	1,248
GRCB Western Europe assets	**483**	341	274
GRCB Western Europe liabilities	**129**	123	109
GRCB Emerging Markets assets	**356**	235	214
GRCB Emerging Markets liabilities	**164**	39	37
GRCB Absa assets	**774**	686	664
GRCB Absa liabilities	**411**	369	313
Barclays Wealth assets	**101**	82	60
Barclays Wealth liabilities	**355**	320	306
Business net interest income	**8,912**	7,796	7,421

Reconciliation of business interest

income to Group net interest income

	2008 £m	2007 £m	2006 £m
Business net interest income	**8,912**	7,796	7,421
Other:			
Barclays Capital	**1,724**	1,179	1,158
Barclays Global Investors	**(38)**	(8)	10
Other	**871**	643	554
Group net interest income	**11,469**	9,610	9,143

Net fee and commission income

	2008 £m	2007 £m	2006 £m
Brokerage fees	**87**	109	70
Investment management fees	**1,616**	1,787	1,535
Securities lending	**389**	241	185
Banking and credit related fees and commissions	**7,208**	6,363	6,031
Foreign exchange commission	**189**	178	184
Fee and commission income	**9,489**	8,678	8,005
Fee and commission expense	**(1,082)**	(970)	(828)
Net fee and commission income	**8,407**	7,708	7,177

Income statement commentary

Principal transactions

2008/07

Principal transactions decreased 60% (£2,966m) to £2,009m (2007: £4,975m).

Net trading income decreased 65% (£2,430m) to £1,329m (2007: £3,759m). The majority of the Group s net trading income arises in Barclays Capital. Growth in the Rates related business reflected growth in fixed income, prime services, foreign exchange, commodities and emerging markets. The Credit related business included net losses from credit market dislocation partially offset by the benefits of widening credit spreads on structured notes issued by Barclays Capital.

Net investment income decreased 44% (£536m) to £680m (2007: £1,216m). The cumulative gain from disposal of available for sale assets decreased 62% (£348m) to £212m (2007: £560m) reflecting the lower profits realised on the sale of investments. The £212m gain in 2008 included the £47m gain from sale of shares in MasterCard.

The dividend income increased £170m to £196m (2007: £26m) reflecting the Visa IPO dividend received by GRCB Western Europe, GRCB Emerging Markets and Barclaycard in the current year. The GRCB Absa gain on the Visa IPO of £47m has been recognised in other income.

Net gain from financial instruments designated at fair value decreased 89% (£260m) to £33m (2007: £293m), driven by the continued decrease in value of assets backing customer liabilities in Barclays Life Assurance; and fair value decreases of a number of investments reflecting the current market condition.

Other investment income decreased 29% (£98m) to £239m (2007: £337m) due to a number of non-recurring disposals in the prior year.

2007/06

Principal transactions increased 9% (£399m) to £4,975m (2006: £4,576m).

Net trading income increased 4% (£145m) to £3,759m (2006: £3,614m). The majority of the Group s net trading income arose from Barclays Capital. Growth in the Rates related business reflected very strong performances in fixed income, commodities, foreign exchange, equity and prime services. The Credit related business included net losses from credit market turbulence and the benefits of widening credit spreads on structured notes issued by Barclays Capital.

Net investment income increased 26% (£254m) to £1,216m (2006: £962m). The cumulative gain from disposal of available for sale assets increased 82% (£253m) to £560m (2006: £307m) largely as a result of a number of private equity realisations and divestments. Net income from financial instruments designated at fair value decreased by 34% (£154m) largely due to lower growth in the value of linked insurance assets within Barclays Wealth.

Fair value movements on insurance assets included within net investment income contributed £113m (2006: £205m).

Net premiums from insurance contracts

2008/07

Net premiums from insurance contracts increased 8% (£79m) to £1,090m (2007: £1,011m), primarily due to expansion in GRCB Western Europe reflecting a full year s impact of a range of insurance products launched in late 2007, partially offset by lower net premiums following the sale of the closed life assurance book.

2007/06

Net premiums from insurance contracts decreased 5% (£49m) to £1,011m (2006: £1,060m), primarily due to lower customer take up of loan protection insurance.

Other income

2008/07

Certain asset management products offered to institutional clients by Barclays Global Investors are recognised as investment contracts. Accordingly, the invested assets and the related liabilities to investors are held at fair value and changes in those fair values are reported within other income. Other income in 2008 includes a £47m gain from the Visa IPO.

2007/06

Certain asset management products offered to institutional clients by Barclays Global Investors are recognised as investment contracts. Accordingly, the invested assets and the related liabilities to investors are held at fair value and changes in those fair values are reported within other income. Other income in 2007 includes a loss on the part disposal of Monument credit card portfolio and gains on reinsurance transactions in 2007 and 2006.

Principal transactions

	2008	2007	2006
	£m	£m	£m
Rates related business	4,751	4,162	2,848
Credit related business	(3,422)	(403)	766
Net trading income	1,329	3,759	3,614
Net gain from disposal of available for sale assets	212	560	307
Dividend income	196	26	15
Net gain from financial instruments designated at fair value	33	293	447
Other investment income	239	337	193
Net investment income	680	1,216	962
Principal transactions	2,009	4,975	4,576

Net premiums from insurance contracts

	2008	2007	2006
	£m	£m	£m
Gross premiums from insurance contracts	1,138	1,062	1,108
Premiums ceded to reinsurers	(48)	(51)	(48)
Net premiums from insurance contracts	1,090	1,011	1,060

Other income

	2008	2007	2006
	£m	£m	£m
(Decrease)/increase in fair value of assets held in respect of linked liabilities to customers under investment contracts	(10,422)	5,592	7,417
Decrease/(increase) in liabilities to customers under investment contracts	10,422	(5,592)	(7,417)
Property rentals	73	53	55
Loss on part disposal of Monument credit card portfolio		(27)	
Other	304	162	159
Other income	377	188	214

Net claims and benefits incurred on insurance contracts

	2008 £m	2007 £m	2006 £m
Gross claims and benefits incurred on insurance contracts	263	520	588
Reinsurers share of claims incurred	(26)	(28)	(13)
Net claims and benefits incurred on insurance contracts	**237**	492	575

Net claims and benefits incurred on insurance contracts

2008/07

Net claims and benefits incurred under insurance contracts decreased 52% (£255m) to £237m (2007: £492m), principally due to a decrease in the value of unit linked insurance contracts in Barclays Wealth; explained by falls in equity markets and disposal of closed life business in October 2008. Partially offsetting these trends is the increase in contract liabilities associated with increased net premiums driven by the growth in GRCB Western Europe.

2007/06

Net claims and benefits incurred under insurance contracts decreased 14% (£83m) to £492m (2006: £575m), principally reflecting lower investment gains attributable to customers in Barclays Wealth.

Impairment charges and other credit provisions

2008/07

Impairment charges in UK Retail Banking increased £43m to £602m (2007: £559m), reflecting growth in the book and deteriorating economic conditions. In UK Home Finance, whilst three month arrears increased from 0.63% to 0.91%, the quality of the book and conservative loan to value ratios meant that the impairment charges and amounts charged off remained low at £24m (2007: £3m release). Impairment charges in Consumer Lending increased 3%, reflecting the current economic environment and loan growth.

The impairment charge in Barclays Commercial Bank increased £122m to £414m (2007: £292m), primarily reflecting higher impairment losses in Larger Business, particularly in the final quarter as the UK corporate credit environment deteriorated.

The impairment charge in Barclaycard increased £270m to £1,097m (2007: £827m), reflecting higher charges in Barclaycard International portfolios, particularly Barclaycard US which was driven by loan growth, rising delinquency due to deteriorating economic conditions and exchange rate movements; and £68m from the inclusion of Goldfish. These factors were partially offset by lower charges in UK Cards and secured consumer lending.

Impairment charges in GRCB Western Europe increased £220m to £296m (2007: £76m), principally due to deteriorating economic trends and asset growth in Spain, where there were higher charges in the commercial portfolios as a consequence of the slowdown in the property and construction sectors. In addition, higher household indebtedness and rising unemployment has driven up delinquency and charge-offs in the personal sector.

Impairment charges in GRCB Emerging Markets increased £127m to £166m (2007: £39m), reflecting: weakening credit conditions which adversely impacted delinquency trends in the majority of the retail portfolios; asset growth, particularly in India; and increased wholesale impairment in Africa.

Impairment charges in GRCB Absa increased £201m to £347m (2007: £146m) as a result of rising delinquency levels in the retail portfolios, which have been impacted by rising interest and inflation rates and increasing consumer indebtedness.

Barclays Capital impairment charges of £2,423m (2007: £846m) included a charge of £1,763m (2007: £782m) against ABS CDO Super Senior and other credit market positions. Further impairment charges of £241m were incurred in respect of available for sale assets and reverse repurchase agreements (2007: nil). Other impairment charges increased £355m to £419m (2007: £64m) and primarily related to charges in the private equity and other loans business.

The impairment charge in Barclays Wealth increased £37m to £44m (2007: £7m) from a very low base. This increase reflected both the substantial increase in the loan book over the last three years and the impact of the current economic environment on client liquidity and collateral values.

The impairment charge In Head office functions and other operations increased £8m to £11m (2007: £3m), mainly reflecting losses on Floating Rate Notes held for hedging purposes. An additional £19m (2007: nil) of impairment charges were incurred on available for sale assets.

Impairment charges and other credit provisions

	2008 £m	2007 £m	2006 £m
Impairment charges on loans and advances			
New and increased impairment allowances	**5,116**	2,871	2,722
Releases	**(358)**	(338)	(389)
Recoveries	**(174)**	(227)	(259)
Impairment charges on loans and advances	**4,584**	2,306	2,074
Charge/(release) in respect of provision for undrawn contractually committed facilities and guarantees provided	**329**	476	(6)
Impairment charges on loans and advances and other credit provisions	**4,913**	2,782	2,068
Impairment charges on reverse repurchase agreements	**124**		
Impairment on available for sale assets	**382**	13	86
Impairment charges and other credit provisions	**5,419**	2,795	2,154
Impairment charges and other credit provisions on ABS CDO Super Senior and other credit market exposures included above:			
Impairment charges on loans and advances	**1,218**	300	
Charges in respect of undrawn facilities and guarantees	**299**	469	
Impairment charges on loans and advances and other credit provisions on ABS CDO Super Senior and other credit market exposures	**1,517**	769	
Impairment charges on reverse repurchase agreements	**54**		
Impairment charges on available for sale assets	**192**	13	
Impairment charges and other credit provisions on ABS CDO Super Senior and other credit market exposures	**1,763**	782	

Income statement commentary

2007/06

Impairment charges in UK Retail Banking decreased by £76m to £559m (2006: £635m), reflecting lower charges in unsecured Consumer Lending and Local Business driven by improved collection processes, reduced flows into delinquency, lower arrears trends and stable charge-offs. In UK Home Finance, asset quality remained strong and mortgage charges remained negligible. Mortgage delinquencies as a percentage of outstandings remained stable and amounts charged off were low.

The impairment charge in Barclays Commercial Bank increased £39m to £292m (2006: £253m), primarily due to higher impairment charges in Larger Business, partially offset by a lower charge in Medium Business due to a tightening of the lending criteria.

Impairment charges in Barclaycard decreased £226m to £827m (2006: £1,053m), reflecting reduced flows into delinquency, lower levels of arrears and lower charge-offs in UK Cards. Changes were made to impairment methodologies to standardise the approach and in anticipation of Basel II. The net positive impact of these changes in methodology was offset by the increase in impairment charges in Barclaycard International and secured consumer lending.

Impairment charges in GRCB Western Europe and GRCB Emerging Markets rose by £47m to £115m (2006: £68m), reflecting very strong balance sheet growth in 2006 and 2007 and the impact of lower releases in 2007. Arrears in some of GRCB Absa s retail portfolios deteriorated in 2007, driven by interest rate increases in 2006 and 2007 resulting in pressure on collections.

Barclays Capital impairment charges and other credit provisions of £846m included a charge of £782m against ABS CDO Super Senior and other credit market exposures and £58m net of fees relating to drawn leveraged finance positions.

Operating expenses

2008/07

Operating expenses increased 9% (£1,167m) to £14,366m (2007: £13,199m).

Administrative expenses grew 30% (£1,175m) to £5,153m (2007: £3,978m), reflecting the impact of acquisitions (in particular Lehman Brothers North American businesses and Goldfish), fees associated with Group capital raisings, the cost of the Financial Services Compensation Scheme as well as continued investment in the Global Retail and Commercial Banking distribution network. In addition, Barclays Global Investors selective support of liquidity products increased to £263m in the year (2007: £80m).

Operating expenses were reduced by gains from the sale of property of £148m (2007: £267m) as the Group continued the sale and leaseback of some of its freehold portfolio, principally in UK Retail Banking, Barclays Commercial Bank and GRCB Western Europe.

Amortisation of intangible assets increased 56% (£105m) to £291m (2007: £186m), primarily related to intangible assets arising from the acquisition of Lehman Brothers North American businesses.

Goodwill impairment of £111m reflects the full write-down of £74m relating to EquiFirst, a US non-prime mortgage originator and a partial write-down of £37m relating to FirstPlus following its closure to new business in August 2008.

2007/06

Operating expenses grew 4% (£525m) to £13,199m (2006: £12,674m). The increase was driven by growth of 3% (£236m) in staff costs to £8,405m (2006: £8,169m) and lower gains on property disposals.

Administrative expenses remained flat at £3,978m (2006: £3,980m), reflecting good cost control across all businesses.

Operating lease rentals increased 20% (£69m) to £414m (2006: £345m), primarily due to increased property held under operating leases.

Operating expenses

	2008 £m	2007 £m	2006 £m
Staff costs	7,779	8,405	8,169
Administrative expenses	5,153	3,978	3,980
Depreciation	630	467	455
Impairment charges/(releases)			
property and equipment	33	2	14
intangible assets	(3)	14	7
goodwill	111		
Operating lease rentals	520	414	345
Gain on property disposals	(148)	(267)	(432)
Amortisation of intangible assets	291	186	136
Operating expenses	14,366	13,199	12,674

Operating expenses were reduced by gains from the sale of property of £267m (2006: £432m) as the Group continued the sale and leaseback of some of its freehold portfolio, principally in UK Retail Banking.

Amortisation of intangible assets increased 37% (£50m) to £186m (2006: £136m), primarily reflecting the amortisation of mortgage servicing rights relating to the acquisition of HomEq in November 2006.

Staff costs

2008/07

Staff costs decreased 7% (£626m) to £7,779m (2007: £8,405m). Salaries and accrued incentive payments fell overall by 10% (£720m) to £6,273m (2007: £6,993m), after absorbing increases of £718m relating to in year hiring and staff from acquisitions. Performance related costs were 48% lower, driven mainly by Barclays Capital.

Defined benefit plans pension costs decreased 41% (£61m) to £89m (2007: £150m). This was due to recognition of actuarial gains, higher expected return on assets and reduction in past service costs partially offset by higher interest costs and reduction in curtailment credit.

2007/06

Staff costs increased 3% (£236m) to £8,405m (2006: £8,169m). Salaries and accrued incentive payments rose 5% (£358m) to £6,993m (2006: £6,635m), reflecting increased permanent and fixed term staff worldwide. Defined benefit plans pension costs decreased 47% (£132m) to £150m (2006: £282m). This was mainly due to lower service costs.

Staff numbers

2008/07

Staff numbers are shown on a full-time equivalent basis. Total Group permanent and fixed-term contract staff comprised 60,700 (2007: 61,900) in the UK and 95,600 (2007: 73,000) internationally.

UK Retail Banking staff numbers decreased 300 to 30,400 (2007: 30,700). Barclays Commercial Bank staff numbers increased 600 to 9,800 (2007: 9,200), reflecting investment in product expertise, sales and risk capability and associated support areas. Barclaycard staff numbers increased 700 to 9,600 (2007: 8,900), primarily due to the transfer of staff into Absacard as a result of the acquisition of a majority stake in the South African Woolworth Financial Services business in October 2008. GRCB Western Europe staff numbers increased 2,100 to 10,900 (2007: 8,800), reflecting expansion of the retail distribution network. GRCB Emerging Markets staff numbers increased 8,800 to 22,700 (2007: 13,900), driven by expansion into new markets and continued investment in distribution in existing countries. GRCB Absa staff numbers increased 1,000 to 36,800 (2007: 35,800), reflecting continued growth in the business and investment in collections capacity.

Barclays Capital staff numbers increased 6,900 to 23,100 (2007: 16,200), due principally to the acquisition of Lehman Brothers North American businesses. Barclays Global Investors staff numbers increased 300 to 3,700 (2007: 3,400). Staff numbers increased primarily in the iShares business due to continued expansion in the global ETF franchise. Barclays Wealth staff numbers increased 1,000 to 7,900 (2007: 6,900), principally due to the acquisition of the Lehman Brothers North American businesses.

2007/06

Total Group permanent and fixed term contract staff comprised 61,900 (2006: 62,400) in the UK and 73,000 (2006: 60,200) internationally.

Staff costs

	2008 £m	2007 £m	2006 £m
Salaries and accrued incentive payments	**6,273**	6,993	6,635
Social security costs	**464**	508	502
Pension costs			
defined contribution plans	**237**	141	128
defined benefit plans	**89**	150	282
Other post retirement benefits	**1**	10	30
Other	**715**	603	592
Staff costs	**7,779**	8,405	8,169

Staff numbers

	2008	2007	2006
UK Retail Banking	**30,400**	30,700	34,500
Barclays Commercial Bank	**9,800**	9,200	8,100
Barclaycard	**9,600**	8,900	9,100
GRCB Western Europe	**10,900**	8,800	6,600
GRCB Emerging Markets	**22,700**	13,900	7,600
GRCB Absa	**36,800**	35,800	33,000
Barclays Capital	**23,100**	16,200	13,200
Barclays Global Investors	**3,700**	3,400	2,700
Barclays Wealth	**7,900**	6,900	6,600
Head office functions and other operations	**1,400**	1,100	1,200
Total Group permanent and fixed-term contract staff worldwide	**156,300**	134,900	122,600

Financial review

Income statement commentary

UK Retail Banking headcount decreased 3,800 to 30,700 (2006: 34,500), due to efficiency initiatives in back-office operations and the transfer of operations personnel to Barclays Commercial Bank. Barclays Commercial Bank headcount increased 1,100 to 9,200 (2006: 8,100) due to the transfer of operations personnel from UK Retail Banking and additional investment in front line staff to drive improved geographical coverage. Barclaycard staff numbers decreased 200 to 8,900 (2006: 9,100), due to efficiency initiatives implemented across the UK operation and the sale of part of the Monument card portfolio, partially offset by an increase in the International cards businesses. GRCB Western Europe staff numbers increased 2,200 to 8,800 (2006: 6,600) and GRCB Emerging Markets staff numbers increased 6,300 to 13,900 (2006: 7,600) due to growth in the distribution network. GRCB Absa staff numbers increased 2,800 to 35,800 (2006: 33,000) reflecting growth in the business and distribution network.

Barclays Capital staff numbers increased 3,000 to 16,200 (2006: 13,200) including 800 from the acquisition of EquiFirst. This reflected further investment in the front office, systems development and control functions to support continued business expansion. The majority of organic growth was in Asia Pacific. Barclays Global Investors staff numbers increased 700 to 3,400 (2006: 2,700). Headcount increased in all geographical regions and across product groups and the support functions, reflecting continued investment to support further growth. Barclays Wealth staff numbers increased 300 to 6,900 (2006: 6,600) principally due to the acquisition of Walbrook and increased client- facing professionals.

Share of post-tax results of associates and joint ventures

2008/07

The overall share of post-tax results of associates and joint ventures decreased £28m to £14m (2007: £42m).The share of results from associates decreased £11m mainly due to reduced contribution from private equity associates. The share of results from joint ventures decreased £17m mainly due to reduced contribution from Barclays Capital joint ventures.

2007/06

The overall share of post-tax results of associates and joint ventures decreased £4m to £42m (2006: £46m). The share of results from associates decreased £20m mainly due to the sale of FirstCaribbean International Bank (2006: £41m) at the end of 2006, partially offset by an increased contribution from private equity associates. The share of results from joint ventures increased by £16m mainly due to the contribution from private equity entities.

Profit on disposal of subsidiaries, associates and joint ventures

2008/07

On 31st October 2008 Barclays completed the sale of Barclays Life Assurance Company Ltd to Swiss Reinsurance Company for a net consideration of £729m leading to a net profit on disposal of £326m.

2007/06

The profit on disposal in 2007 related mainly to the disposal of the Group s shareholdings in Gabetti Property Solutions (£8m) and Intelenet Global Services (£13m).

Share of post-tax results of associates and joint ventures

	2008 £m	2007 £m	2006 £m
Profit from associates	22	33	53
(Loss)/profit from joint ventures	(8)	9	(7)
Share of post-tax results of associates and joint ventures	**14**	42	46

Profit on disposal of subsidiaries, associates and joint ventures

	2008 £m	2007 £m	2006 £m
Profit on disposal of subsidiaries, associates and joint ventures	327	28	323

Gains on acquisitions

2008/07

The gains on acquisitions in 2008 relate to the acquisition of Lehman Brothers North American businesses (£2,262m) on 22nd September 2008, Goldfish credit card UK business (£92m) on 31st March 2008 and Macquarie Bank Limited Italian residential mortgage business (£52m) on 6th November 2008.

Tax

The overall tax charge is explained in the table below.

2008/07

The effective rate of tax for 2008, based on profit before tax, was 13% (2007: 28%). The effective tax rate differs from the 2007 effective rate and the UK corporation tax rate of 28.5% principally due to the Lehman Brothers North American businesses acquisition. Under IFRS the gain on acquisition of £2,262m is calculated net of deferred tax liabilities included in the acquisition balance sheet and is thus not subject to further tax in calculating the tax charge for the year. Furthermore, Barclays has tax losses previously unrecognised as a deferred tax asset but capable of sheltering part of this deferred tax liability. This gives rise to a tax benefit of £492m which, in accordance with IAS 12, is included as a credit within the tax charge for the year. The effective rate has been adversely impacted by the effect of the fall in the Barclays share price on the deferred tax asset recognised on share awards. In common with prior years there have been offsetting adjustments relating to different overseas tax rates, disallowable expenditure and non-taxable gains and income.

2007/06

The tax charge for the period was based on a UK corporation tax rate of 30% (2006: 30%). The effective rate of tax for 2007, based on profit before tax, was 28% (2006: 27%). The effective tax rate differed from 30% as it took account of the different tax rates applied to profits earned outside the UK, non-taxable gains and income and adjustments to prior year tax provisions. The forthcoming change in the UK rate of corporation tax from 30% to 28% on 1st April 2008 led to an additional tax charge in 2007 as a result of its effect on the Group s net deferred tax asset. The effective tax rate for 2007 was higher than the 2006 rate, principally because there was a higher level of profit on disposals of subsidiaries, associates and joint ventures offset by losses or exemptions in 2006.

Economic profit

Economic profit comprises:

- Profit after tax and minority interests; less

- Capital charge (average shareholders equity and goodwill excluding minority interests multiplied by the Group cost of capital).

The Group cost of capital has been applied at a uniform rate of 10.5%[a]. The costs of servicing preference shares are included in minority interests, so preference shares are excluded from average shareholders equity for economic profit purposes.

Gains on acquisitions

	2008 £m	2007 £m	2006 £m
Gains on acquisitions	**2,406**		

Tax

	2008 £m	2007 £m	2006 £m
Profit before tax	**6,077**	7,076	7,136
Tax charge at average UK corporation tax rate of 28.5% (2007: 30%, 2006: 30%)	**1,732**	2,123	2,141
Prior year adjustments	**(176)**	(37)	24
Differing overseas tax rates	**215**	(77)	(17)
Non-taxable gains and income (including amounts offset by unrecognised tax losses)	**(833)**	(136)	(393)
Share-based payments	**229**	72	27
Deferred tax assets not previously recognised	**(514)**	(158)	(4)
Change in tax rates	**(1)**	24	4
Other non-allowable expenses	**138**	170	159
Overall tax charge	**790**	1,981	1,941
Effective tax rate	**13%**	28%	27%

Reconciliation of economic profit

	2008 £m	2007 £m	2006 £m
Profit attributable to equity holders of the parent	**4,382**	4,417	4,571
Addback of amortisation charged on acquired intangible assets [b]	**254**	137	83
Profit for economic profit purposes	**4,636**	4,554	4,654
Average shareholders equity for economic profit purposes[c, d] (rounded to nearest £50m)	**27,400**	23,700	20,500
Post-tax cost of equity	**10.5%**	9.5%	9.5%
Capital charge [a]	**(2,876)**	(2,264)	(1,950)
Economic profit	**1,760**	2,290	2,704

Notes

a The Group s cost of capital changed from 1st January 2008 to 10.5% (2007: 9.5%).

b Amortisation charged for purchased intangibles, adjusted for tax and minority interests.

c Average ordinary shareholders equity for Group economic profit calculation is the sum of adjusted equity and reserves plus goodwill and intangible assets arising on acquisition, but excludes preference shares.

d Averages for the period will not correspond exactly to period end balances disclosed in the balance sheet. Numbers are rounded to the nearest £50m for presentation purposes only.

Consolidated balance sheet

As at 31st December

	2008	2007	2006	2005	2004
	£m	£m	£m	£m	£m [a]
Assets					
Cash and other short-term funds	31,714	7,637	9,753	5,807	3,525
Treasury bills and other eligible bills	n/a	n/a	n/a	n/a	6,658
Trading portfolio and financial assets designated at fair value	306,836	341,171	292,464	251,820	n/a
Derivative financial instruments	984,802	248,088	138,353	136,823	n/a
Debt securities and equity securities	n/a	n/a	n/a	n/a	141,710
Loans and advances to banks	47,707	40,120	30,926	31,105	80,632
Loans and advances to customers	461,815	345,398	282,300	268,896	262,409
Available for sale financial investments	64,976	43,072	51,703	53,497	n/a
Reverse repurchase agreements and cash collateral on securities borrowed	130,354	183,075	174,090	160,398	n/a
Other assets	24,776	18,800	17,198	16,011	43,247
Total assets	2,052,980	1,227,361	996,787	924,357	538,181
Liabilities					
Deposits and items in the course of collection due to banks	116,545	92,338	81,783	77,468	112,229
Customer accounts	335,505	294,987	256,754	238,684	217,492
Trading portfolio and financial liabilities designated at fair value	136,366	139,891	125,861	104,949	n/a
Liabilities to customers under investment contracts	69,183	92,639	84,637	85,201	n/a
Derivative financial instruments	968,072	248,288	140,697	137,971	n/a
Debt securities in issue	149,567	120,228	111,137	103,328	83,842
Repurchase agreements and cash collateral on securities lent	182,285	169,429	136,956	121,178	n/a
Insurance contract liabilities, including unit-linked liabilities	2,152	3,903	3,878	3,767	8,377
Subordinated liabilities	29,842	18,150	13,786	12,463	12,277
Other liabilities	16,052	15,032	13,908	14,918	87,200
Total liabilities	2,005,569	1,194,885	969,397	899,927	521,417
Shareholders equity					
Shareholders equity excluding minority interests	36,618	23,291	19,799	17,426	15,870
Minority interests	10,793	9,185	7,591	7,004	894
Total shareholders equity	47,411	32,476	27,390	24,430	16,764
Total liabilities and shareholders equity	2,052,980	1,227,361	996,787	924,357	538,181
Risk weighted assets and capital ratios b					
Risk weighted assets	433,302	353,878	297,833	269,148	218,601
Tier 1 ratio	8.6%	7.6%	7.7%	7.0%	7.6%
Risk asset ratio	13.6%	11.2%	11.7%	11.3%	11.5%
Selected financial statistics					
Net asset value per ordinary share	437p	353p	303p	269p	246p
Year-end United States Dollar exchange rate used in preparing the accounts	1.46	2.00	1.96	1.72	1.92
Year-end Euro exchange rate used in preparing the accounts	1.04	1.36	1.49	1.46	1.41
Year-end Rand exchange rate used in preparing the accounts	13.74	13.64	13.71	10.87	10.86

The financial information above is extracted from the published accounts for the last three years. This information should be read together with, and is qualified by reference to, the accounts and Notes included in this report.

Notes

a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

b Risk weighted assets and capital ratios for 2006, 2005 and 2004 are calculated on a Basel I basis. Risk weighted assets and capital ratios for 2008 and 2007 are calculated on a Basel II basis. Capital ratios for 2004 are based on UK GAAP and have not been restated as these remain as reported to the Financial Services Authority (FSA). As at 1st January 2005 the Tier 1 ratio was 7.1% and the risk asset ratio was 11.8% reflecting the impact of IFRS including the adoption of IAS 32, IAS 39 and IFRS 4.

Financial review

Balance sheet commentary

Balance sheet

Total assets increased £826bn to £2,053bn in 2008. Of this increase, £737bn was attributable to an increase in derivative assets and £124bn was attributable to increased loans and advances. All other assets declined by £35bn.

Shareholders equity

Shareholders equity, excluding minority interests increased, nearly 57% from £23bn at the end of 2007 to £37bn at the end of 2008. The main drivers for this were: equity issuances in July and September of £5.0bn; equity impact of issuing Mandatorily Convertible Notes and Warrants of £4.4bn; and after-tax profits of £5.3bn. Other reserves increased £1.6bn and we paid dividends of £2.3bn.

Capital management

At 31st December 2008, on a Basel II basis the equity Tier 1 ratio was 6.7% and the Tier 1 ratio was 9.7%, both stated on a pro forma basis to reflect conversion into ordinary shares of the Mandatorily Convertible Notes and inclusion of all innovative Tier 1 capital. Capital ratios reflect a 22% increase in risk weighted assets to £433bn during the year. This was driven by the combined impacts on risk weighted assets of the weakening of Sterling and the pro-cyclical effects of the International Basel Accord as well as lending growth in 2008. The capital ratios reflect this risk weighted asset growth and benefited from the significant increases in our capital over the course of 2008. The pro forma ratios significantly exceed the minimum levels established by the UK Financial Services Authority.

On 19th January 2009 the UK government announced, amongst other measures, an asset protection scheme under which banks may insure certain assets on their balance sheet. We are working with the Tripartite Authorities (Her Majesty s Treasury, Bank of England and the

UK Financial Services Authority) to determine the terms on which, and the extent to which, we would wish to participate in the scheme. The procuring of such insurance could have the effect of reducing risk weighted assets. The UK Financial Services Authority also announced on 19th January 2009 a programme of work to reduce significantly the requirement for additional capital raising from the pro-cyclical effects of the International Basel Accord.

We expect a single digit percentage rate of risk weighted asset growth in 2009.

We expect to maintain the equity Tier 1 ratio and Tier 1 ratio at levels which significantly exceed the minimum requirements of the UK Financial Services Authority for the duration of the current period of financial and economic stress.

Foreign Currency Translation

Assets and risk weighted assets were affected by the decline in value of Sterling relative to other currencies during 2008, particularly in the last two months of the year. Over the course of the year, Sterling depreciated by 37% relative to the US Dollar and 31% relative to the Euro. We estimate that currency movements contributed £60bn to risk weighted assets.

Our hedging strategy in respect of net investments in foreign currencies is designed to mitigate against the impact of such movements on our capital ratios. In this regard, equity and Tier 1 capital ratios are hedged to approximately 75%, 30% and 100% of the movements in US Dollar, Euro and South African Rand respectively against Sterling.

The currency translation reserve increased by £3.1bn year on year. This reflected foreign exchange movements in foreign currency net investments which are largely economically hedged through preference share capital (denominated in US Dollars and Euros) that is not revalued for accounting purposes.

Balance sheet commentary

Total assets and risk weighted assets[a]

2008/07

Total assets increased 67% to £2,053.0bn (2007: £1,227.4bn). Risk weighted assets increased 22% to £433.3bn (2007: £353.9bn).

UK Retail Banking total assets increased 15% to £101.4bn (31st December 2007: £88.5bn) driven by growth in mortgage balances. Risk weighted assets decreased 3% to £30.5bn (31st December 2007: £31.5bn) as lending growth mainly in high quality, low risk mortgages was more than offset in capital terms by active risk management.

Barclays Commercial Bank total assets grew 13% to £84.0bn (31st December 2007: £74.6bn) driven by higher loans and advances. Risk weighted assets increased 11% to £63.1bn (31st December 2007: £57.0bn). This was slightly lower than asset growth, reflecting a relative increase in lower risk portfolios.

Barclaycard total assets increased 40% to £30.9bn (31st December 2007: £22.1bn) reflecting increases in International assets, the acquisition of Goldfish and the appreciation of the Euro and US Dollar against Sterling. Risk weighted assets increased 35% to £27.3bn (31st December 2007: £20.2bn), driven by acquisitions, the redemption of securitisation deals and exposure growth predominantly in the US.

GRCB Western Europe total assets grew 48% to £64.7bn (31st December 2007: £43.7bn) reflecting growth in retail mortgages, unsecured lending, commercial lending and a 31% appreciation over the year in the value of the Euro against Sterling. Risk weighted assets increased 46% to £36.5bn (31st December 2007: £25.0bn), primarily reflecting underlying lending growth and the appreciation of the Euro.

GRCB Emerging Markets total assets grew 60% to £14.7bn (31st December 2007: £9.2bn) reflecting increases in retail and commercial lending combined with the impact of Sterling depreciation. Risk weighted assets increased 44% to £15.1bn (31st December 2007: £10.5bn), reflecting portfolio growth.

GRCB Absa total assets increased 11% to £40.4bn (31st December 2007: £36.4bn) reflecting broad based asset growth. Risk weighted assets increased 6% to £18.8bn (31st December 2007: £17.8bn), reflecting balance sheet growth.

Barclays Capital total assets increased 94% (£789.2bn) to £1,629.1bn (31st December 2007: £839.9bn) due to an increase in derivative assets of £736.7bn, predominantly driven by significant volatility and movements in yield curves during the year, together with a substantial depreciation in Sterling against most major currencies. Total assets excluding derivatives increased by 9% in Sterling. On a constant currency basis, total assets excluding derivatives decreased by approximately 15%. Risk weighted assets increased 28% to £227.4bn (31st December 2007: £178.2bn). This was driven by the depreciation in Sterling against the US Dollar and Euro, and an increase in market volatility.

Barclays Global Investors total assets decreased 20% to £71.3bn (31st December 2007: £89.2bn), mainly attributable to adverse market movements in certain asset management products recognised as investment contracts. Risk weighted assets decreased 11% to £3.9bn (31st December 2007: £4.4bn) mainly attributed to changes in the asset class mix, partially offset by the weakening of Sterling against other currencies.

Barclays Wealth total assets decreased 27% to £13.3bn (31st December 2007: £18.2bn) reflecting the sale of the closed life assurance business partially offset by strong growth in lending to high net worth and intermediary clients. Risk weighted assets increased 26% to £10.3bn (31st December 2007: £8.2bn) reflecting strong growth in lending.

Head office functions and other operations total assets decreased 46% to £3.1bn (31st December 2007: £5.7bn). Risk weighted assets decreased 64% to £0.4bn (31st December 2007: £1.1bn). The decrease in the year was mainly attributable to the increased netting of Group deferred tax assets and liabilities.

Total assets by business

	2008	2007	2006
	£m	£m	£m
UK Retail Banking	**101,384**	88,477	81,693
Barclays Commercial Bank	**84,029**	74,566	66,224
Barclaycard	**30,925**	22,121	20,033
GRCB Western Europe	**64,732**	43,702	33,487
GRCB Emerging Markets	**14,653**	9,188	5,219
GRCB Absa	**40,391**	36,368	29,575
Barclays Capital	**1,629,117**	839,850	657,922
Barclays Global Investors	**71,340**	89,218	80,515
Barclays Wealth	**13,263**	18,188	15,023
Head office functions and other operations	**3,146**	5,683	7,096
Total assets	**2,052,980**	1,227,361	996,787

Risk weighted assets by business

	2008 b	2007 **b**	2007	2006
	Basel II	Basel II	Basel I	Basel I
	£m	£m	£m	£m
UK Retail Banking	**30,491**	31,463	46,059	43,020
Barclays Commercial Bank	**63,081**	57,040	54,325	50,302
Barclaycard	**27,316**	20,199	19,690	16,873
GRCB Western Europe	**36,480**	24,971	24,462	17,567
GRCB Emerging Markets	**15,080**	10,484	6,050	3,255
GRCB Absa	**18,846**	17,829	22,448	19,809
Barclays Capital	**227,448**	178,206	169,124	137,635
Barclays Global Investors	**3,910**	4,369	1,994	1,375
Barclays Wealth	**10,300**	8,216	7,692	6,077
Head office functions and other operations	**350**	1,101	1,632	1,920
Total risk weighted assets	**433,302**	353,878	353,476	297,833

Notes

a The 2008/07 commentary on risk weighted assets is on a Basel II basis. The 2007/06 commentary is on a Basel I basis.

b Under the Group s securitisation programme, certain portfolios subject to securitisation or similar risk transfer transaction are adjusted in calculating the Group s risk weighted assets. Previously, for pre-2008 transactions, regulatory capital adjustments were allocated to the business in proportion to their RWAs. From 1st January 2008, the regulatory capital adjustments for all transactions are allocated to the business undertaking the securitisation unless the transaction has been undertaken for the benefit of a cluster of businesses, in which case the regulatory capital adjustments are shared.

2007/06

Total assets increased 23% to £1,227.4bn (2006: £996.8bn). Risk weighted assets increased 19% to £353.5bn (2006: £297.8bn). Loans and advances to customers that have been securitised increased £4.3bn to £28.7bn (2006: £24.4bn).

UK Retail Banking total assets increased 8% to £88.5bn (2006: £81.7bn). This was mainly attributable to growth in mortgage balances. Risk weighted assets increased by 7% to £46.1bn (2006: £43.0bn) with growth in mortgages partially offset by an increase in securitised balances and other reductions.

Barclays Commercial Bank total assets grew 13% to £74.6bn (2006: £66.2bn) driven by good growth across lending products. Risk weighted assets increased 8% to £54.3bn (2006: £50.3bn), reflecting asset growth partially offset by increased regulatory netting and an increase in securitised balances.

Barclaycard total assets increased 11% to £22.1bn (2006: £20.0bn). Risk weighted assets increased 17% to £19.7bn (2006: £16.9bn), primarily reflecting the increase in total assets, redemption of securitisation transactions, partially offset by changes to the treatment of regulatory associates and the sale of part of the Monument card portfolio.

GRCB Western Europe total assets grew 31% to £43.7bn (2006: £33.5bn). This growth was mainly driven by increases in retail mortgages and unsecured lending. Risk weighted assets increased 39% to £24.5bn (2006: £17.6bn), reflecting asset growth.

GRCB Emerging Markets total assets grew by 76% to £9.2bn (2006: £5.2bn). This growth was driven by increases in unsecured lending. Risk weighted assets increased 86% to £6.1bn (2006: £3.3bn), reflecting asset growth.

GRCB Absa total assets increased 23% to £36.4bn (2006: £29.6bn), primarily driven by increases in mortgages, credit cards and commercial property finance. Risk weighted assets increased 13% to £22.4bn (2006: £19.8bn), reflecting balance sheet growth.

Barclays Capital total assets rose 28% to £839.9bn (2006: £657.9bn). Derivative assets increased £109.7bn primarily due to movements across a range of market indices. This was accompanied by a corresponding increase in derivative liabilities. The increase in non-derivative assets reflects an expansion of the business across a number of asset classes, combined with an increase in drawn leveraged loan positions and mortgage-related assets. Risk weighted assets increased 23% to £169.1bn (2006: £137.6bn) reflecting growth in fixed income, equities and credit derivatives.

Barclays Global Investors total assets increased 11% to £89.2bn (2006: £80.5bn), mainly attributable to growth in certain asset management products recognised as investment contracts. The majority of total assets relates to asset management products with equal and offsetting balances reflected within liabilities to customers. Risk weighted assets increased 45% to £2.0bn (2006: £1.4bn) mainly attributable to overall growth in the balance sheet and the mix of securities lending activity.

Barclays Wealth total assets increased 21% to £18.2bn (2006: £15.0bn) reflecting strong growth in lending to high net worth, affluent and intermediary clients. Risk weighted assets increased 27% to £7.7bn (2006: £6.1bn) reflecting the increase in lending.

Head office functions and other operations total assets decreased 20% to £5.7bn (2006: £7.1bn). Risk weighted assets decreased 15% to £1.6bn (2006: £1.9bn).

Adjusted gross leverage

The adjusted gross leverage ratio is defined as the multiple of adjusted total tangible assets over total qualifying Tier 1 capital.

Volatility in reference rates and yield curves used for pricing have led to significantly higher values for derivative assets and liabilities. Limited netting is permitted under IFRS, even for receivables and payables with the same counterparty where there are contractually agreed netting arrangements. Derivative assets and liabilities would be £917bn (2007: £215bn) lower than reported under IFRS if netting were permitted for assets and liabilities with the same counterparty or for which we hold cash collateral.

Assets and liabilities also include amounts held under investment contracts with third parties of a further £69bn as at 31st December 2008 (2007: £93bn). These constitute asset management products offered to institutional pension funds which are required to be recognised as financial instruments. Changes in value in these assets are entirely to the account of the beneficial owner of the asset.

Excluding these items, settlement balances, goodwill and intangible assets, our adjusted total tangible assets were £1,026bn at 31st December 2008 (2007: £888bn). On this basis we define adjusted gross leverage, being the multiple of adjusted total tangible assets over total qualifying Tier 1 capital. At 31st December 2008 adjusted gross leverage was 28x (2007: 33x).

On a pro forma basis, reflecting the conversion of Mandatorily Convertible Notes and inclusion of all innovative instruments in Tier 1 capital, our adjusted gross leverage would be 24x. We expect adjusted gross leverage to improve further over time.

Adjusted gross leverage

	2008	2007
	£m	£m
Total assets	**2,052,980**	1,227,361
Counterparty net/ collateralised derivatives	**(917,074)**	(215,485)
Financial assets designated at fair value and associated cash balances held in respect of linked liabilities to customers under investment contracts	**(69,183)**	(92,639)
Net settlement balances	**(29,786)**	(22,459)
Goodwill and intangible assets	**(10,402)**	(8,296)
Adjusted total tangible assets	**1,026,535**	888,482
Total qualifying Tier 1 capital	**37,250**	26,743
Adjusted gross leverage	**28**	33

Balance sheet commentary

Total shareholders equity

2008/07

Total shareholders equity increased £14,935m to £47,411m (2007: £32,476m).

Called up share capital comprises 8,372 million ordinary shares of 25p each (2007: 6,600 million ordinary shares of 25p each and 1 million staff shares of £1 each).

Retained earnings increased £3,238m to £24,208m (2007: £20,970m). Profit attributable to the equity holders of the parent of £4,382m and the proceeds of capital raising of £1,410m were partially offset by dividends paid to shareholders of £2,344m. Other equity of £3,652m represents the issue of Mandatorily Convertible Notes, which will convert into ordinary shares by June 2009.

Movements in other reserves, except the capital redemption reserve, reflect the relevant amounts recorded in the consolidated statement of recognised income and expense on page 206.

Minority interests increased £1,608m to £10,793m (2007: £9,185m). The increase primarily reflects a preference share issuance by Barclays Bank PLC of £1,345m.

The Group s authority to buy-back equity shares was renewed at the 2008 AGM.

2007/06

Total shareholders equity increased £5,086m to £32,476m (2006: £27,390m).

Called up share capital comprises 6,600 million (2006: 6,535 million) ordinary shares of 25p each and 1 million (2006: 1 million) staff shares of £1 each. Called up share capital increased by £17m representing the nominal value of shares issued to Temasek Holdings, China Development Bank (CDB) and employees under share option plans largely offset by a reduction in nominal value arising from share buy-backs. Share premium

reduced by £5,762m; the reclassification of £7,223m to retained earnings resulting from the High Court approved cancellation of share premium was partly offset by additional premium arising on the issuance to CDB and on employee options. The capital redemption reserve increased by £75m representing the nominal value of the share buy-backs.

Retained earnings increased by £8,801m. Increases primarily arose from profit attributable to equity holders of the parent of £4,417m, the reclassification of share premium of £7,223m and the proceeds of the Temasek issuance in excess of nominal value of £941m. Reductions primarily arose from external dividends paid of £2,079m and the total cost of share repurchases of £1,802m.

Movements in other reserves, except the capital redemption reserve, reflect the relevant amounts recorded in the consolidated statement of recognised income and expense on page 206.

Minority interests increased £1,594m to £9,185m (2006: £7,591m). The increase was primarily driven by preference share issuances of £1,322m and an increase in the minority interest in Absa of £225m.

The Group s authority to buy-back equity shares was renewed at the 2007 AGM.

Barclays Bank PLC

Preference shares issued by Barclays Bank PLC are included within share capital and share premium in the Barclays Bank PLC Group but represent minority interests in the Barclays PLC Group. Certain issuances of reserve capital instruments and capital notes by Barclays Bank PLC are included within other shareholders equity in the Barclays Bank PLC Group but represent minority interests in Barclays PLC Group. The Mandatorily Convertible Notes issued pursuant to the equity issuances by Barclays PLC represent financial liabilities in the financial statements of Barclays Bank PLC and have not been included in shareholders equity.

Total shareholders equity

	2008 £m	2007 £m	2006 £m
Barclays PLC Group			
Called up share capital	**2,093**	1,651	1,634
Share premium account	**4,045**	56	5,818
Other equity	**3,652**		
Available for sale reserve	**(1,190)**		132
Cash flow hedging reserve	**132**	26	(230)
Capital redemption reserve	**394**	384	309
Other capital reserve	**617**	617	617
Currency translation reserve	**2,840**	(307)	(438)
Other reserves	**2,793**	874	390
Retained earnings	**24,208**	20,970	12,169
Less: Treasury shares	**(173)**	(260)	(212)
Shareholders equity excluding minority interests	**36,618**	23,291	19,799
Minority interests	**10,793**	9,185	7,591
Total shareholders equity	**47,411**	32,476	27,390

Total shareholders equity

	2008 £m	2007 £m	2006 £m
Barclays Bank PLC Group			
Called up share capital	**2,398**	2,382	2,363
Share premium account	**12,060**	10,751	9,452
Available for sale reserve	**(1,249)**	111	184
Cash flow hedging reserve	**132**	26	(230)
Currency translation reserve	**2,840**	(307)	(438)
Other reserves	**1,723**	(170)	(484)
Other shareholders equity	**2,564**	2,687	2,534
Retained earnings	**22,457**	14,222	11,556
Shareholders equity excluding minority interests	**41,202**	29,872	25,421
Minority interests	**2,372**	1,949	1,685
Total shareholders equity	**43,574**	31,821	27,106

Financial review

Capital management

Capital resources

Tier 1 capital increased by £10.5bn during the year, driven by issues of ordinary shares (£5.2bn), other capital issuances (£4.3bn), retained profits (£2.0bn) and exchange rate movements (£3.2bn). These movements were partially offset by an increase in intangible assets (£1.3bn), innovative Tier 1 capital in excess of regulatory limits being reclassified as Tier 2 capital (£1.3bn) and the reversal of gains on own credit, net of tax (£1.2bn).

Tier 2 capital increased by £8.5bn due to issuance of loan capital (£3.6bn) net of redemptions (£1.1bn), inclusion of innovative capital in excess of the Tier 1 limits (£1.3bn), increases in collective impairment (£1.2bn) and exchange rate movements (£3.9bn).

The Mandatorily Convertible Notes (MCNs) issued during the year (£4.1bn) will qualify as equity capital from the date of their conversion, on or before 30th June 2009.

All capital issuance referred to above is stated gross of issue costs.

Basel I transitional floor

Barclays commenced calculating capital requirements under the Basel II capital framework from 1st January 2008. The Group manages its businesses and reports capital requirements on a Basel II basis. During the transition period for the adoption of Basel II, banks capital requirements may not fall below a transitional floor. In 2008 this floor was 90% of adjusted Basel I capital requirements. As at 31st December 2008, the Group had additional capital requirements under the transitional floor rules of £1.5bn. The Group s total capital resources of £58.7bn exceeded its capital requirements taking into account the transitional floor by £22.5bn. On 1st January 2009, the transitional floor reduced to 80% of adjusted Basel I capital requirements and there were no additional capital requirements resulting from its application.

Capital ratios

	Basel II 2008		Basel II 2007		Basel I 2007		Basel I 2006	
	Barclays PLC Group	Barclays Bank PLC Group	Barclays PLC Group	Barclays Bank PLC Group	Barclays PLC Group	Barclays Bank PLC Group	Barclays PLC Group	Barclays Bank PLC Group
Capital ratios	%	%	%	%	%	%	%	%
Tier 1 ratio	8.6	8.6	7.6	7.3	7.8	7.5	7.7	7.5
Risk asset ratio	13.6	13.5	11.2	11.0	12.1	11.8	11.7	11.5
Risk weighted assets	£m	£m	£m	£m	£m	£m	£m	£m
Credit risk	266,912	266,912	244,474	244,469	265,264	265,259	233,630	233,630
Counterparty risk	70,902	70,902	41,203	41,203	51,947	51,947	33,912	33,912
Market risk	65,372	65,372	39,812	39,812	36,265	36,265	30,291	30,291
Operational risk	30,116	30,116	28,389	28,389	n/a	n/a	n/a	n/a
Total risk weighted assets	433,302	433,302	353,878	353,873	353,476	353,471	297,833	297,833

Total net capital resources

Capital resources (as defined for regulatory purposes)								
	£m	**£m**	£m	£m	£m	£m	£m	£m
Tier 1								
Called up share capital	**2,093**	**2,338**	1,651	2,382	1,651	2,382	1,634	2,363
Eligible reserves	**31,156**	**36,639**	22,939	26,028	22,526	25,615	19,608	21,700
Minority interests	**13,915**	**8,038**	10,551	5,857	10,551	5,857	7,899	4,528
Tier One Notes	**1,086**	**1,086**	899	899	899	899	909	909
Less: Intangible assets	**(9,964)**	**(9,964)**	(8,191)	(8,191)	(8,191)	(8,191)	(7,045)	(7,045)
Less: Deductions from Tier 1 capital	**(1,036)**	**(1,036)**	(1,106)	(1,106)	(28)	(28)		
Total qualifying Tier 1 capital	**37,250**	**37,101**	26,743	25,869	27,408	26,534	23,005	22,455
Tier 2								
Revaluation reserves	**26**	**26**	26	26	26	26	25	25
Available for sale equity	**122**	**122**	295	295	295	295	221	221
Collectively assessed impairment allowances	**1,654**	**1,654**	440	440	2,619	2,619	2,556	2,556
Minority interests	**607**	**607**	442	442	442	442	451	451
Qualifying subordinated liabilities								
Undated loan capital	**6,745**	**6,768**	3,191	3,191	3,191	3,191	3,180	3,180
Dated loan capital	**14,215**	**14,215**	10,578	10,578	10,578	10,578	7,603	7,603
Less: Deductions from Tier 2 capital	**(1,036)**	**(1,036)**	(1,106)	(1,106)	(28)	(28)		
Total qualifying Tier 2 capital	**22,333**	**22,356**	13,866	13,866	17,123	17,123	14,036	14,036
Less: Regulatory deductions								
Investments not consolidated for supervisory purposes	**(403)**	**(403)**	(633)	(633)	(633)	(633)	(982)	(982)
Other deductions	**(453)**	**(561)**	(193)	(193)	(1,256)	(1,256)	(1,348)	(1,348)
Total deductions	**(856)**	**(964)**	(826)	(826)	(1,889)	(1,889)	(2,330)	(2,330)
Total net capital resources	**58,727**	**58,493**	39,783	38,909	42,642	41,768	34,711	34,161

Additional financial disclosure

Deposits and short-term borrowings

Deposits

Deposits include deposits from banks and customers accounts.

	Average: year ended 31st December		
	2008	2007	2006
	£m	£m	£m
Deposits from banks			
Customers in the United Kingdom	**14,003**	15,321	12,832
Customers outside the United Kingdom:			
Other European Union	**38,210**	33,162	30,116
United States	**15,925**	6,656	7,352
Africa	**3,110**	4,452	4,140
Rest of the World	**36,599**	36,626	35,013
Total deposits from banks	**107,847**	96,217	89,453
Customer accounts			
Customers in the United Kingdom	**206,020**	187,249	173,767
Customers outside the United Kingdom:			
Other European Union	**30,909**	23,696	22,448
United States	**31,719**	21,908	17,661
Africa	**35,692**	29,855	23,560
Rest of the World	**27,653**	23,032	19,992
Customer accounts	**331,993**	285,740	257,428

Deposits from banks in offices in the United Kingdom received from non- residents amounted to £63,284m (2007: £45,162m).

	Year ended 31st December		
	2008	2007	2006
	£m	£m	£m
Customer accounts	**335,505**	294,987	256,754
In offices in the United Kingdom:			
Current and Demand accounts interest free	**41,351**	33,400	25,650
Current and Demand accounts interest bearing	**20,898**	32,047	31,769
Savings accounts	**68,335**	70,682	62,745
Other time deposits retail	**33,785**	36,123	36,110
Other time deposits wholesale	**74,417**	65,726	53,733
Total repayable in offices in the United Kingdom	**238,786**	237,978	210,007
In offices outside the United Kingdom:			
Current and Demand accounts interest free	**4,803**	2,990	2,169
Current and Demand accounts interest bearing	**15,463**	11,570	17,626
Savings accounts	**7,673**	3,917	3,041

Other time deposits	**68,780**	38,532	23,911
Total repayable in offices outside the United Kingdom	**96,719**	57,009	46,747

Customer accounts deposits in offices in the United Kingdom received from non-residents amounted to £61,714m (2007: £49,179m).

Short-term borrowings

Short-term borrowings include deposits from banks, commercial paper and negotiable certificates of deposit.

Deposits from banks

Deposits from banks are taken from a wide range of counterparties and generally have maturities of less than one year.

	2008	2007	2006
	£m	£m	£m
Year-end balance	**114,910**	90,546	79,562
Average balance	**107,847**	96,217	89,453
Maximum balance	**139,836**	109,586	97,165
Average interest rate during year	**3.6%**	4.1%	4.2%
Year-end interest rate	**2.3%**	4.0%	4.3%

Commercial paper

Commercial paper is issued by the Group, mainly in the United States, generally in denominations of not less than US$100,000, with maturities of up to 270 days.

	2008	2007	2006
	£m	£m	£m
Year-end balance	**27,692**	23,451	26,546
Average balance	**24,668**	26,229	29,740
Maximum balance	**27,792**	30,736	31,859
Average interest rate during year	**4.4%**	5.4%	4.4%
Year-end interest rate	**4.2%**	5.2%	5.0%

Negotiable certificates of deposit

Negotiable certificates of deposits are issued mainly in the United Kingdom and United States, generally in denominations of not less than US$100,000.

	2008	2007	2006
	£m	£m	£m
Year-end balance	**61,332**	58,401	52,800
Average balance	**55,122**	55,394	49,327
Maximum balance	**67,715**	62,436	60,914
Average interest rate during year	**4.4%**	5.1%	5.3%
Year-end interest rate	**4.1%**	5.0%	5.1%

Financial review

Additional financial disclosure

Commitments and contractual obligations

Commercial commitments include guarantees, contingent liabilities and standby facilities.

Commercial commitments

	2008				
	Amount of commitment expiration per period				
	Less than one year	Between one to three years	Between three to five years	After five years	Total amounts committed
	£m	£m	£m	£m	£m
Acceptances and endorsements	576	6	3		585
Guarantees and letters of credit pledged as collateral security	7,272	2,529	1,781	4,070	15,652
Securities lending arrangements	38,290				38,290
Other contingent liabilities	7,989	1,604	372	1,818	11,783
Documentary credits and other short-term trade related transactions	770	88	1		859
Forward asset purchases and forward deposits placed	50	241			291
Standby facilities, credit lines and other	195,035	29,666	26,150	8,815	259,666

	2007				
	Amount of commitment expiration per period				
	Less than one year	Between one to three years	Between three to five years	After five years	Total amounts committed
	£m	£m	£m	£m	£m
Acceptances and endorsements	365				365
Guarantees and letters of credit pledged as collateral security	6,417	2,711	1,971	1,874	12,973
Securities lending arrangements	22,719				22,719
Other contingent liabilities	6,594	1,556	416	1,151	9,717
Documentary credits and other short-term trade related transactions	401	121			522
Forward asset purchases and forward deposits placed	283				283
Standby facilities, credit lines and other	136,457	17,039	28,127	10,211	191,834

Contractual obligations include debt securities, operating lease and purchase obligations.

Contractual obligations

2008					
	Payments due by period				
	Less than one year	Between one to three years	Between three to five years	After five years	Total
	£m	£m	£m	£m	£m
Long-term debt	**108,172**	**24,701**	**10,855**	**22,008**	**165,736**
Operating lease obligations	**280**	**690**	**785**	**2,745**	**4,500**
Purchase obligations	**214**	**225**	**61**	**20**	**520**
Total	**108,666**	**25,616**	**11,701**	**24,773**	**170,756**

2007					
	Payments due by period				
	Less than one year	Between one to three years	Between three to five years	After five years	Total
	£m	£m	£m	£m	£m
Long-term debt	90,201	13,558	8,630	19,358	131,747
Operating lease obligations	197	755	610	2,225	3,787
Purchase obligations	141	186	27	6	360
Total	90,539	14,499	9,267	21,589	135,894

The long-term debt does not include undated loan capital of £13,673m (2007: £6,631m).

Further information on the contractual maturity of the Group s assets and liabilities is given in Note 49.

Additional financial disclosure

Securities

The following table analyses the book value of securities which are carried at fair value.

	2008		2007		2006	
	Book value	Amortised cost	Book value	Amortised cost	Book value	Amortised cost
	£m	£m	£m	£m	£m	£m
Investment securities available for sale						
Debt securities:						
United Kingdom government	1,238	1,240	78	81	758	761
Other government	11,456	11,338	7,383	7,434	12,587	12,735
Other public bodies	2,373	2,379	634	632	280	277
Mortgage and asset backed securities	3,510	4,126	1,367	1,429	1,706	1,706
Bank and building society certificates of deposit	10,478	10,535	3,028	3,029	6,686	6,693
Corporate and other issuers	29,776	30,363	26,183	26,219	25,895	25,857
Equity securities	2,142	1,814	1,676	1,418	1,371	1,047
Investment securities available for sale	60,973	61,795	40,349	40,242	49,283	49,076
Other securities held for trading						
Debt securities:						
United Kingdom government	6,955	n/a	3,832	n/a	4,986	n/a
Other government	50,727	n/a	51,104	n/a	46,845	n/a
Mortgage and asset backed securities	30,748	n/a	37,038	n/a	29,606	n/a
Bank and building society certificates of deposit	7,518	n/a	17,751	n/a	14,159	n/a
Corporate and other issuers	52,738	n/a	43,053	n/a	44,980	n/a
Equity securities	30,535	n/a	36,307	n/a	31,548	n/a
Other securities held for trading	179,221	n/a	189,085	n/a	172,124	n/a

Investment debt securities include government securities held as part of the Group s treasury management portfolio for asset and liability, liquidity and regulatory purposes and are for use on a continuing basis in the activities of the Group. In addition, the Group holds as investments listed and unlisted corporate securities.

Bank and building society certificates of deposit are freely negotiable and have original maturities of up to five years, but are typically held for shorter periods.

In addition to UK government securities shown above, at 31st December 2008, 2007 and 2006, the Group held the following government securities which exceeded 10% of shareholders equity.

Government securities

	2008	2007	2006
	Book value	Book value	Book value
	£m	£m	£m
United States	17,165	15,156	18,343
Japan	9,092	9,124	15,505
Germany	5,832	5,136	4,741
France	4,091	3,538	4,336

Italy	6,091	5,090	3,419
Spain	3,647	3,674	2,859

Maturities and yield of available for sale debt securities

	Maturing within one year		Maturing after one but within five years		Maturing after five but within ten years		Maturing after ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	£m	%	£m	%	£m	%	£m	%	£m	%
Government	3,096	6.0	5,410	5.1	1,694	1.1	2,493	0.9	12,693	4.0
Other public bodies	832	1.9	1,526	0.9	1		14	4.7	2,373	1.3
Other issuers	21,749	4.3	9,692	3.8	7,702	4.4	4,622	5.7	43,765	4.3
Total book value	25,677	4.4	16,628	3.9	9,397	3.8	7,129	4.0	58,831	4.1

The yield for each range of maturities is calculated by dividing the annualised interest income prevailing at 31st December 2008 by the fair value of securities held at that date.

Financial review

Additional financial disclosure

Average balance sheet

Average balance sheet and net interest income (year ended 31st December)

	2008			2007			2006		
	Average balance [a] £m	**Interest £m**	**Average rate %**	Average balance [a] £m	Interest £m	Average rate %	Average balance [a] £m	Interest £m	Average rate %
Assets									
Loans and advances to banks **b** :									
in offices in the United Kingdom	**38,913**	**1,453**	**3.7**	29,431	1,074	3.6	18,401	647	3.5
in offices outside the United Kingdom	**14,379**	**419**	**2.9**	12,262	779	6.4	12,278	488	4.0
Loans and advances to customers **b** :									
in offices in the United Kingdom	**249,081**	**13,714**	**5.5**	205,707	13,027	6.3	184,392	11,247	6.1
in offices outside the United Kingdom	**116,284**	**9,208**	**7.9**	88,212	6,733	7.6	77,615	4,931	6.4
Lease receivables:									
in offices in the United Kingdom	**4,827**	**281**	**5.8**	4,822	283	5.9	5,266	300	5.7
in offices outside the United Kingdom	**6,543**	**752**	**11.5**	5,861	691	11.8	6,162	595	9.7
Financial investments:									
in offices in the United Kingdom	**35,844**	**1,654**	**4.6**	37,803	2,039	5.4	41,125	1,936	4.7
in offices outside the United Kingdom	**10,450**	**697**	**6.7**	14,750	452	3.1	14,191	830	5.8
Reverse repurchase agreements and cash collateral on securities borrowed:									
in offices in the United Kingdom	**207,521**	**8,768**	**4.2**	211,709	9,644	4.6	166,713	6,136	3.7
in offices outside the United Kingdom	**128,250**	**4,450**	**3.5**	109,012	5,454	5.0	100,416	5,040	5.0
Trading portfolio assets:									
in offices in the United Kingdom	**107,626**	**4,948**	**4.6**	120,691	5,926	4.9	106,148	4,166	3.9
in offices outside the United Kingdom	**128,287**	**5,577**	**4.3**	57,535	3,489	6.1	61,370	2,608	4.2
Total average interest earning assets	**1,048,005**	**51,921**	**5.0**	897,795	49,591	5.5	794,077	38,924	4.9
Impairment allowances/provisions	**(5,749)**			(4,435)			(3,565)		
Non-interest earning assets	**711,856**			422,834			310,949		
Total average assets and interest income	**1,754,112**	**51,921**	**3.0**	1,316,194	49,591	3.8	1,101,461	38,924	3.5
Percentage of total average interest earning assets in offices outside the United Kingdom	**38.6%**			32.0%			34.3%		
Total average interest earning assets related to:									
Interest income		**51,921**	**5.0**		49,591	5.5		38,924	4.9
Interest expense		**(38,181)**	**3.6**		(37,892)	4.2		(30,385)	3.8
		13,740	**1.4**		11,699	1.3		8,539	1.1

Notes

a Average balances are based upon daily averages for most UK banking operations and monthly averages elsewhere.

b Loans and advances to customers and banks include all doubtful lendings, including non-accrual lendings. Interest receivable on such lendings has been included to the extent to which either cash payments have been received or interest has been accrued in accordance with the income recognition policy of the Group.

Additional financial disclosure

Average balance sheet

Average balance sheet and net interest income (year ended 31st December)

	2008			2007			2006		
	Average balance [a] £m	Interest £m	Average rate %	Average balance [a] £m	Interest £m	Average rate %	Average balance [a] £m	Interest £m	Average rate %
Liabilities and shareholders equity									
Deposits by banks:									
in offices in the United Kingdom	70,272	2,780	4.0	63,902	2,511	3.9	62,236	2, 464	4.0
in offices outside the United Kingdom	32,172	956	3.0	27,596	1,225	4.4	23,438	1,137	4.9
Customer accounts:									
demand deposits:									
in offices in the United Kingdom	24,333	910	3.7	29,110	858	2.9	25,397	680	2.7
in offices outside the United Kingdom	14,902	572	3.8	13,799	404	2.9	10,351	254	2.5
Customer accounts:									
savings deposits:									
in offices in the United Kingdom	71,062	2,143	3.0	55,064	2,048	3.7	57,734	1,691	2.9
in offices outside the United Kingdom	7,033	413	5.9	4,848	128	2.6	3,124	74	2.4
Customer accounts:									
other time deposits retail:									
in offices in the United Kingdom	32,283	1,523	4.7	30,578	1,601	5.2	34,865	1,548	4.4
in offices outside the United Kingdom	20,055	1,350	6.7	12,425	724	5.8	8,946	482	5.4
Customer accounts:									
other time deposits wholesale:									
in offices in the United Kingdom	60,574	2,362	3.9	52,147	2,482	4.8	45,930	1,794	3.9
in offices outside the United Kingdom	31,300	2,094	6.7	24,298	1,661	6.8	23,442	1,191	5.1
Debt securities in issue:									
in offices in the United Kingdom	41,014	1,920	4.7	41,552	2,053	4.9	47,216	1,850	3.9
in offices outside the United Kingdom	80,768	3,734	4.6	94,271	5,055	5.4	74,125	3,686	5.0
Dated and undated loan capital and other subordinated liabilities principally:									
in offices in the United Kingdom	22,912	1,435	6.3	12,972	763	5.9	13,686	777	5.7
Repurchase agreements and cash collateral on securities lent:									
in offices in the United Kingdom	203,967	8,445	4.1	169,272	7,616	4.5	141,862	5,080	3.6
in offices outside the United Kingdom	177,883	2,800	1.6	118,050	5,051	4.3	86,693	4,311	5.0
Trading portfolio liabilities:									
in offices in the United Kingdom	56,675	2,657	4.7	47,971	2,277	4.7	49,892	2,014	4.0
in offices outside the United Kingdom	62,239	2,087	3.4	29,838	1,435	4.8	39,064	1,352	3.5
Total average interest bearing liabilities	1,009,444	38,181	3.8	827,693	37,892	4.6	748,001	30,385	4.1
Interest free customer deposits:									
in offices in the United Kingdom	40,439			34,109			27,549		
in offices outside the United Kingdom	3,089			3,092			2,228		
Other non-interest bearing liabilities	664,458			421,473			297,816		
Minority and other interests and shareholders equity	36,682			29,827			25,867		
Total average liabilities, shareholders equity and interest expense	1,754,112	38,181	2.2	1,316,194	37,892	2.9	1,101,461	30,385	2.8
Percentage of total average interest bearing non-capital liabilities in offices outside the United Kingdom	42.2%			39.4%			36.1%		

Note

a Average balances are based upon daily averages for most UK banking operations and monthly averages elsewhere.

Changes in net interest income volume and rate analysis

The following tables allocate changes in net interest income between changes in volume and changes in interest rates for the last two years. Volume and rate variances have been calculated on the movement in the

average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities. Where variances have arisen from changes in both volumes and interest rates, these have been allocated proportionately between the two.

	2008/2007 Change due to increase/ (decrease) in:			2007/2006 Change due to increase/ (decrease) in:			2006/2005 Change due to increase/ (decrease) in:		
	Total change £m	Volume £m	Rate £m	Total change £m	Volume £m	Rate £m	Total change £m	Volume £m	Rate £m
Interest receivable									
Loans and advances to banks:									
in offices in the UK	379	354	25	427	402	25	193	121	72
in offices outside the UK	(360)	117	(477)	291	(1)	292	85	46	39
	19	471	(452)	718	401	317	278	167	111
Loans and advances to customers:									
in offices in the UK	687	2,525	(1,838)	1,780	1,337	443	1,018	726	292
in offices outside the UK	2,475	2,214	261	1,802	728	1,074	1,956	1,695	261
	3,162	4,739	(1,577)	3,582	2,065	1,517	2,974	2,421	553
Lease receivables:									
in offices in the UK	(2)		(2)	(17)	(26)	9	(48)	(70)	22
in offices outside the UK	61	79	(18)	96	(30)	126	478	413	65
	59	79	(20)	79	(56)	135	430	343	87
Financial investments:									
in offices in the UK	(385)	(102)	(283)	103	(165)	268	181	(85)	266
in offices outside the UK	245	(163)	408	(378)	32	(410)	363	202	161
	(140)	(265)	125	(275)	(133)	(142)	544	117	427
Reverse repurchase agreements and cash collateral on securities borrowed:									
in offices in the UK	(876)	(188)	(688)	3,508	1,865	1,643	1,519	324	1,195
in offices outside the UK	(1,004)	855	(1,859)	414	430	(16)	2,316	254	2,062
	(1,880)	667	(2,547)	3,922	2,295	1,627	3,835	578	3,257
Trading portfolio assets:									
in offices in the UK	(978)	(616)	(362)	1,760	621	1,139	1,456	907	549
in offices outside the UK	2,088	3,303	(1,215)	881	(172)	1,053	492	151	341
	1,110	2,687	(1,577)	2,641	449	2,192	1,948	1,058	890
Total interest receivable:									
in offices in the UK	(1,175)	1,973	(3,148)	7,561	4,034	3,527	4,319	1,923	2,396
in offices outside the UK	3,505	6,405	(2,900)	3,106	987	2,119	5,690	2,761	2,929
	2,330	8,378	(6,048)	10,667	5,021	5,646	10,009	4,684	5,325

Financial review

Additional financial disclosure

Average balance sheet

Changes in net interest income volume and rate analysis

	2008/2007 Change due to increase/ (decrease) in:			2007/2006 Change due to increase/ (decrease) in:			2006/2005 Change due to increase/ (decrease) in:		
	Total change £m	**Volume £m**	**Rate £m**	Total change £m	Volume £m	Rate £m	Total change £m	Volume £m	Rate £m
Interest payable									
Deposits by banks:									
in offices in the UK	**269**	**252**	**17**	47	66	(19)	799	247	552
in offices outside the UK	**(269)**	**181**	**(450)**	88	190	(102)	432	52	380
		433	**(433)**	135	256	(121)	1,231	299	932
Customer accounts demand deposits:									
in offices in the UK	**52**	**(155)**	**207**	178	105	73	170	68	102
in offices outside the UK	**168**	**34**	**134**	150	95	55	166	80	86
	220	**(121)**	**341**	328	200	128	336	148	188
Customer accounts savings deposits:									
in offices in the UK	**95**	**527**	**(432)**	357	(81)	438	121	152	(31)
in offices outside the UK	**285**	**77**	**208**	54	45	9	35	28	7
	380	**604**	**(224)**	411	(36)	447	156	180	(24)
Customer accounts other time deposits retail:									
in offices in the UK	**(78)**	**86**	**(164)**	53	(204)	257	78	41	37
in offices outside the UK	**626**	**500**	**126**	242	200	42	222	125	97
	548	**586**	**(38)**	295	(4)	299	300	166	134
Customer accounts other time deposits wholesale:									
in offices in the UK	**(120)**	**367**	**(487)**	688	263	425	603	129	474
in offices outside the UK	**433**	**469**	**(36)**	470	45	425	601	550	51
	313	**836**	**(523)**	1,158	308	850	1,204	679	525
Debt securities in issue:									
in offices in the UK	**(133)**	**(26)**	**(107)**	203	(240)	443	219	22	197
in offices outside the UK	**(1,321)**	**(673)**	**(648)**	1,369	1,063	306	1,991	850	1,141
	(1,454)	**(699)**	**(755)**	1,572	823	749	2,210	872	1,338
Dated and undated loan capital and other subordinated liabilities principally in offices in the UK	**672**	**620**	**52**	(14)	(41)	27	172	135	37
Repurchase agreements and cash collateral on securities lent:									
in offices in the UK	**829**	**1,471**	**(642)**	2,536	1,090	1,446	1,446	329	1,117
in offices outside the UK	**(2,251)**	**1,840**	**(4,091)**	740	1,402	(662)	1,932	200	1,732
	(1,422)	**3,311**	**(4,733)**	3,276	2,492	784	3,378	529	2,849
Trading portfolio liabilities:									
in offices in the UK	**380**	**408**	**(28)**	263	(80)	343	277	222	55
in offices outside the UK	**652**	**1,189**	**(537)**	83	(366)	449	156	85	71
	1,032	**1,597**	**(565)**	346	(446)	792	433	307	126
Total interest payable:									
in offices in the UK	**1,966**	**3,550**	**(1,584)**	4,311	878	3,433	3,885	1,345	2,540
in offices outside the UK	**(1,677)**	**3,617**	**(5,294)**	3,196	2,674	522	5,535	1,970	3,565
	289	**7,167**	**(6,878)**	7,507	3,552	3,955	9,420	3,315	6,105

Movement in net interest income

Increase/(decrease) in interest receivable	**2,330**	**8,378**	**(6,048)**	10,667	5,021	5,646	10,009	4,684	5,325
(Increase)/decrease in interest payable	**(289)**	**(7,167)**	**6,878**	(7,507)	(3,552)	(3,955)	(9,420)	(3,315)	(6,105)
	2,041	**1,211**	**830**	3,160	1,469	1,691	589	1,369	(780)

Financial review

Additional financial disclosure

Off-balance sheet arrangements

In the ordinary course of business and primarily to facilitate client transactions, the Group enters into transactions which may involve the use of off-balance sheet arrangements and special purpose entities (SPEs). These arrangements include the provision of guarantees, loan commitments, retained interests in assets which have been transferred to an unconsolidated SPE or obligations arising from the Group s involvements with such SPEs.

Guarantees

The Group issues guarantees on behalf of its customers. In the majority of cases, the Group will hold collateral against the exposure, have a right of recourse to the customer or both. In addition, the Group issues guarantees on its own behalf. The main types of guarantees provided are: financial guarantees given to banks and financial institutions on behalf of customers to secure loans; overdrafts; and other banking facilities, including stock borrowing indemnities and standby letters of credit. Other guarantees provided include performance guarantees, advance payment guarantees, tender guarantees, guarantees to Her Majesty s Revenue and Customs and retention guarantees. The nominal principal amount of contingent liabilities with off-balance sheet risk is set out in Note 34 and in the table on page 33.

Loan commitments

The Group enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period or are cancellable by the Group subject to notice conditions. Information on loan commitments and similar facilities is set out in Note 34 and in the table on page 33.

Special purpose entities

Transactions entered into by the Group may involve the use of SPEs.

SPEs are entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their on-going activities.

Transactions with SPEs take a number of forms, including:

- The provision of financing to fund asset purchases, or commitments to provide finance for future purchases.
- Derivative transactions to provide investors in the SPE with a specified exposure.
- The provision of liquidity or backstop facilities which may be drawn upon if the SPE experiences future funding difficulties.
- Direct investment in the notes issued by SPEs.

Depending on the nature of the Group s resulting exposure, it may consolidate the SPE on to the Group s balance sheet. The consolidation of SPEs is considered at inception, based on the arrangements in place and the assessed risk exposures at that time. In accordance with IFRS, SPEs are consolidated when the substance of the relationship between the Group and the entity indicates control. Potential indicators of control include, amongst others, an assessment of the Group s exposure to the risks and benefits of the SPE. The initial consolidation analysis is revisited at a later date if:

(i) the Group acquires additional interests in the entity;

(ii) the contractual arrangements of the entity are amended such that the relative exposures to risks and rewards change; or if

(iii) the Group acquires control over the main operating and financial decisions of the entity.

A number of the Group s transactions have recourse only to the assets of unconsolidated SPEs. Typically, the majority of the exposure to these assets is borne by third parties and the Group s risk is mitigated through over-collateralisation, unwind features and other protective measures. The Group s involvement with unconsolidated third party conduits, collateralised debt obligations and structured investment vehicles is described further below.

Collateralised debt obligations (CDOs)

The Group has structured and underwritten CDOs. At inception, the Group s exposure principally takes the form of a liquidity facility provided to support future funding difficulties or cash shortfalls in the vehicles. If required by the vehicle, the facility is drawn with the amount advanced included within loans and advances in the balance sheet. Upon an event of default or other triggering event, the Group may acquire control of a CDO and, therefore, be required to fully consolidate the vehicle for accounting purposes. The potential for transactions to hit default triggers before the end of 2009 has been assessed and is included in the determination of £1,763m impairment charges and other credit provisions in relation to ABS CDO Super Senior and other credit market exposures for the year ended 31st December 2008.

The Group s exposure to ABS CDO Super Senior positions before hedging was £3,104m as at 31st December 2008. This represents the Group s exposure to High Grade CDOs, stated net of write-downs and charges. These facilities are fully drawn and included within loans and advances on the balance sheet. The undrawn mezzanine facilities that were in place as at 31st December 2007 relate to CDOs that have been consolidated during the period.

Collateral

The collateral underlying unconsolidated CDOs comprised 78% residential mortgage backed securities, 3% non-residential asset backed securities and 19% in other categories (a proportion of which will be backed by residential mortgage collateral).

The remaining Weighted Average Life (WAL) of all collateral is 5.1 years. The combined Net Asset Value (NAV) for all of the CDOs was £2.2bn below the nominal amount, equivalent to an aggregate 41.3% decline in value on average for all investors.

Funding

The CDOs were funded with senior unrated notes and rated notes up to AAA. The capital structure senior to the AAA notes on cash CDOs was supported by a liquidity facility provided by the Group. The senior portion covered by liquidity facilities is on average 85% of the capital structure.

The initial WAL of the notes in issue averaged 6.7 years. The full contractual maturity is 38 years.

Interests in third party CDOs

The Group has purchased securities in and entered into derivative instruments with third party CDOs. These interests are held as trading assets or liabilities on the Group s balance sheet and measured at fair value. The Group has not provided liquidity facilities or similar agreements to third party CDOs.

Additional financial disclosure

Off-balance sheet arrangements

Structured investment vehicles (SIVs)

The Group has not structured or managed SIVs. Group exposure to third party SIVs comprised:

- £41m of senior liquidity facilities.
- Derivative exposures included on the balance sheet at their net fair value of £273m.
- Bonds issued by the SIVs included within trading portfolio assets at their fair value of £11m.

SIV-Lites

The Group has exposure to two SIV-Lite transactions. The Group is not involved in their ongoing management. Exposures have increased by £531m relating to a SIV-Lite which had previously been hedged with Lehman Brothers. Following the Lehman Brothers bankruptcy this facility was reflected as a new exposure to the underlying assets. The other SIV-Lite of £107m represents drawn liquidity facilities supporting a CP programme.

During 2008 exposure to a third SIV-Lite through bond holdings was written down to zero.

Commercial paper and medium-term note conduits

The Group provided £22bn in undrawn backstop liquidity facilities to its own sponsored CP conduits. The Group fully consolidates these entities such that the underlying assets are reflected on the Group balance sheet.

These consolidated entities in turn provide facilities of £899m to third party conduits containing prime UK buy-to-let RMBS. As at 31st December 2008, the entire facility had been drawn and is included in available for sale financial investments.

The Group provided backstop facilities to support the paper issued by four third party conduits. These facilities totalled £866m, with underlying collateral comprising 100% auto loans. Drawings on these facilities were £25m as at 31st December 2008 and are included within loans and advances to customers.

The Group provided backstop facilities to six third party SPEs that fund themselves with medium-term notes. These notes are sold to investors as a series of 12 month securities and remarketed to investors annually. If investors decline to renew their holdings at a price below a pre-agreed spread, the backstop facility requires the Group to purchase the outstanding notes at scheduled maturity. The Group has provided facilities of £2.6bn to SPEs holding prime UK and Australian owner-occupied Residential Mortgage Back Securities (RMBS) assets. As at the balance sheet date these facilities had been drawn and were included in loans and advances.

Asset securitisations

The Group has assisted companies with the formation of asset securitisations, some of which are effected through the use of SPEs. These entities have minimal equity and rely on funding in the form of notes to purchase the assets for securitisation. As these SPEs are created for other companies, the Group does not usually control these entities and therefore does not consolidate them. The Group may provide financing in the form of senior notes or junior notes and may also provide derivatives to the SPE. These transactions are included on the balance sheet.

The Group has used SPEs to securitise part of its originated and purchased retail and commercial lending portfolios and credit card receivables. These SPEs are usually consolidated and de-recognition only occurs when the Group transfers its contractual right to receive cash flows from the

financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment, and also transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. The carrying amount of securitised assets together with the associated liabilities are set out in Note 29.

Client intermediation

The Group has structured transactions as a financial intermediary to meet investor and client needs. These transactions involve entities structured by either the Group or the client and they are used to modify cash flows of third party assets to create investments with specific risk or return profiles or to assist clients in the efficient management of other risks. Such transactions will typically result in a derivative being shown on the balance sheet, representing the Group s exposure to the relevant asset.

The Group also invests in lessor entities specifically to acquire assets for leasing. Client intermediation also includes arrangements to fund the purchase or construction of specific assets (most common in the property industry).

Fund management

The Group provides asset management services to a large number of investment entities on an arm s length basis and at market terms and prices. The majority of these entities are investment funds that are owned by a large and diversified number of investors. These funds are not consolidated because the Group does not own either a significant portion of the equity or the risks and rewards inherent in the assets.

During 2008, Group operating expenses included charges of £263m related to selective support of liquidity products managed by Barclays Global Investors and not consolidated by the Group. The Group have not provided any additional selective support subsequent to 31st December 2008.

Additional financial disclosure

Critical accounting estimates

The Group s accounting policies are set out on pages 193 to 203. Certain of these policies, as well as estimates made by management, are considered to be important to an understanding of the Group s financial condition since they require management to make difficult, complex or subjective judgements and estimates, some of which may relate to matters that are inherently uncertain. The following accounting policies include estimates which are particularly sensitive in terms of judgements and the extent to which estimates are used. Other accounting policies involve significant amounts of judgements and estimates, but the total amounts involved are not significant to the financial statements. Management has discussed the accounting policies and critical accounting estimates with the Board Audit Committee.

Fair value of financial instruments

Some of the Group s financial instruments are carried at fair value through profit or loss such as those held for trading, designated by management under the fair value option and non-cash flow hedging derivatives.

Other non-derivative financial assets may be designated as available for sale. Available for sale financial investments are initially recognised at fair value and are subsequently held at fair value. Gains and losses arising from changes in fair value of such assets are included as a separate component of equity. Financial instruments entered into as trading transactions, together with any associated hedging, are measured at fair value and the resultant profits and losses are included in net trading income, along with interest and dividends arising from long and short positions and funding costs relating to trading activities. Assets and liabilities resulting from gains and losses on financial instruments held for trading are reported gross in trading portfolio assets and liabilities or derivative financial instruments, reduced by the effects of netting agreements where there is an intention to settle net with counterparties.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Where a valuation model is used to determine fair value, it makes maximum use of market inputs. Financial instruments with a fair value based on observable inputs include valuations determined by unadjusted quoted prices in an active market and market standard pricing models that use observable inputs.

Financial instruments whose fair value is determined, at least in part, using unobservable inputs are further categorised into Vanilla and Exotic products as follows:

- Vanilla products are valued using simple models such as discounted cash flow or Black Scholes models however, some of the inputs are not observable.

- Exotic products are over-the-counter products that are relatively bespoke, not commonly traded in the markets, and their valuation comes from sophisticated mathematical models where some of the inputs are not observable.

An analysis of financial instruments carried at fair value by valuation technique, including the extent of valuations based on unobservable inputs, together with a sensitivity analysis of valuations using unobservable inputs is included in Note 50.

Allowances for loan impairment and other credit risk provisions

Allowances for loan impairment represent management s estimate of the losses incurred in the loan portfolios as at the balance sheet date. Changes to the allowances for loan impairment and changes to the provisions for undrawn contractually committed facilities and guarantees provided are reported in the consolidated income statement as part of the impairment charge. Provision is made for undrawn loan commitments and similar facilities if it is probable that the facility will be drawn and result in recognition of an asset at an amount less than the amount advanced.

Within the retail and small businesses portfolios, which comprise large numbers of small homogeneous assets with similar risk characteristics where credit scoring techniques are generally used, statistical techniques are used to calculate impairment allowances on a portfolio basis, based on historical recovery rates and assumed emergence periods. These statistical analyses use as primary inputs the extent to which accounts in the portfolio are in arrears and historical information on the eventual losses encountered from such delinquent portfolios. There are many such models in use, each tailored to a product, line of business or customer category. Judgement and knowledge is needed in selecting the statistical methods to

use when the models are developed or revised. The impairment allowance reflected in the financial statements for these portfolios is therefore considered to be reasonable and supportable. The impairment charge reflected in the income statement for these portfolios is £2,333m (2007: £1,605m) and amounts to 51% (2007: 70%) of the total impairment charge on loans and advances in 2008.

For larger accounts, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account, for example, the business prospects for the customer, the realisable value of collateral, the Group s position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan s original effective interest rate), and its carrying amount. Subjective

Additional financial disclosure

Critical accounting estimates

judgements are made in the calculation of future cash flows. Furthermore, judgements change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge. The impairment charge reflected in the financial statements in relation to larger accounts is £2,251m (2007: £701m) or 49% (2007: 30%) of the total impairment charge on loans and advances in 2007. Further information on impairment allowances is set out in Note 47 on page 264.

Goodwill

Management have to consider at least annually whether the current carrying value of goodwill is impaired. The first step of the impairment review process requires the identification of independent cash generating units, by dividing the Group business into as many largely independent income streams as is reasonably practicable. The goodwill is then allocated to these independent units. The first element of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second element reflects the allocation of the net assets acquired and the difference between the consideration paid for those net assets and their fair value. This allocation is reviewed following business reorganisation. The carrying value of the unit, including the allocated goodwill, is compared to its fair value to determine whether any impairment exists. If the fair value of a unit is less than its carrying value, goodwill will be impaired. Detailed calculations may need to be carried out taking into consideration changes in the market in which a business operates (e.g. competitive activity, regulatory change). In the absence of readily available market price data this calculation is based

upon discounting expected pre-tax cash flows at a risk adjusted interest rate appropriate to the operating unit, the determination of both of which requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which detailed forecasts are available and to assumptions regarding the long-term sustainable cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows naturally reflect management s view of future performance. The most significant amounts of goodwill relate to UK Retail Banking, GRCB Absa and Barclays Global Investors, where goodwill impairment testing performed in 2008 indicated that this goodwill was not impaired. Goodwill impairment of £111m relating to FirstPlus and EquiFirst was recognised in 2008 (2007: nil). An analysis of goodwill by cluster, together with key assumptions underlying the impairment testing, is included in Note 21 on page 222.

Intangible assets

Intangible assets that derive their value from contractual customer relationships or that can be separated and sold and have a finite useful life are amortised over their estimated useful life. Determining the estimated useful life of these finite life intangible assets requires an analysis of circumstances, and judgement by the Bank s management. At each balance sheet date, or more frequently when events or changes in circumstances dictate, intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset s or the cash-generating unit s net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm s length

transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset s continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. The most significant amounts of intangible assets relate to the GRCB Absa and Lehman Brothers North American businesses.

Retirement benefit obligations

The Group provides pension plans for employees in most parts of the world. Arrangements for staff retirement benefits vary from country to country and are made in accordance with local regulations and customs. For defined contribution schemes, the pension cost recognised in the profit and loss account represents the contributions payable to the scheme. For defined benefit schemes, actuarial valuation of each of the scheme s obligations using the projected unit credit method and the fair valuation of each of the scheme s assets are performed annually in accordance with the requirements of IAS 19.

The actuarial valuation is dependent upon a series of assumptions, the key ones being interest rates, mortality, investment returns and inflation. Mortality estimates are based on standard industry and national mortality tables, adjusted where appropriate to reflect the Group s own experience. The returns on fixed interest investments are set to market yields at the valuation date (less an allowance for risk) to ensure consistency with the asset valuation. The returns on UK and overseas equities are based on the long-term outlook for global equities at the calculation date having regard to current market yields and dividend growth expectations. The inflation assumption reflects long-term expectations of both earnings and retail price inflation.

The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date, adjusted for any historic unrecognised actuarial gains or losses and past service cost, is recognised as a liability in the balance sheet. An asset arising, for example, as a result of past over-funding or the performance of the plan investments, is recognised to the extent that it does not exceed the present value of future contribution holidays or refunds of contributions. To the extent that any unrecognised gains or losses at the start of the measurement year in relation to any individual defined benefit scheme exceed 10% of the greater of the fair value of the scheme assets and the defined benefit obligation for that scheme, a proportion of the excess is recognised in the income statement.

The Group s IAS 19 pension deficit across all schemes as at 31st December 2008 was £1,287m (2007: surplus of £393m). There are net recognised liabilities of £1,292m (2007: £1,501m) and unrecognised actuarial gains of £5m (2007: £1,894m). The net recognised liabilities comprised retirement benefit liabilities of £1,357m (2007: £1,537m) and assets of £65m (2007: £36m).

The Group s IAS 19 pension deficit in respect of the main UK scheme as at 31st December 2008 was £858m (2007: surplus of £668m). Among the reasons for this change were the large loss in value of the assets over the year, and to a lesser extent the strengthening of the allowance made for future improvement in mortality. Offsetting these were the increase in the AA long-term corporate bond yields which resulted in a higher discount rate of 6.75% (2007: 5.82%), a decrease in the inflation assumption to 3.16% (2007: 3.45%) and contributions paid. Further information on retirement benefit obligations, including assumptions, is set out in Note 30 to the accounts on page 234.

Analysis of results by business

Global Retail and Commercial Banking

UK Retail Banking profit before tax grew 7% to £1,369m. Income grew 4% to £4,482m, reflecting strong growth in Home Finance and minimal settlements on overdraft fees. Loans and advances grew 15% driven by a market share of net new mortgage lending of 36%. Operating expenses showed a modest increase of 2% reflecting active management of the cost base and reduced gains from the sale of property. The cost:income ratio improved one percentage point. Impairment charges increased 8% reflecting strong growth in assets and a deteriorating economic environment.

Barclays Commercial Bank profit before tax decreased 7% to £1,266m. Income growth of 7% principally reflected increased sales of treasury products. Loans and advances to customers increased 14% to £80.5bn. Costs increased 14% driven by lower gains on the sale of property, further investment in new payments capability, and growth in the operating lease business. Impairment charges increased 42% as the deteriorating economic environment caused higher delinquency and lower recovery rates on corporate credit.

Barclaycard profit before tax increased 31% to £789m, including £260m from Barclaycard International. Income growth of 27% reflected strong growth in Barclaycard International, the income related to Goldfish since acquisition, and gains relating to the Visa IPO and the sale of MasterCard shares. Costs increased 30% reflecting continued international growth, increased marketing expenditure and the impact of Goldfish. Impairment charges increased 33% reflecting growth in charges in the international businesses and the acquisition of Goldfish, partly offset by lower impairment in the other UK businesses.

GRCB Western Europe profit before tax grew 31% to £257m. Income grew 53%, driven by very strong growth in deposits, mortgages

and commercial lending across the expanded franchise, as well as gains of £82m relating to the Visa IPO and the sale of MasterCard shares. Costs increased 38% reflecting the expansion of the network by 347 distribution points to 1,145 and continued strategic investment in the Premier and core retail businesses. Impairment charges increased £220m to £296m, largely driven by deteriorating trends in Spain which led to losses in property-related commercial banking exposures and credit cards.

GRCB Emerging Markets profit before tax increased 34% to £134m. Income increased 91%, driven by retail expansion in India, entry into new markets in Russia and Pakistan and strong performances in Africa, as well as gains of £82m relating to the Visa IPO and sale of MasterCard shares. Operating expense growth of 82% reflected continued investment in business infrastructure, distribution and new markets. Distribution points increased 286 to 836. Impairment charges increased £127m to £166m reflecting asset growth, and increased wholesale impairment in Africa.

GRCB Absa profit before tax decreased 8% to £552m. Income growth of 10% was driven by higher fees and commissions, balance sheet growth as well as a gain relating to the Visa IPO. Operating expenses increased 3%, well below the rate of inflation, reflecting investment in new distribution points, which increased 176 to 1,177, offset by good cost control. This led to a four percentage point improvement in the cost:income ratio to 59%. Impairment charges rose £201m to £347m, mainly due to prolonged high interest rates and inflation rates and increased customer indebtedness resulting in higher delinquency levels in the retail portfolios.

Analysis of results by business

For the year ended 31st December 2008

	UK Retail Banking £m	Barclays Commercial Bank	Barclaycard £m	GRCB Western Europe £m	GRCB Emerging Markets £m	GRCB Absa £m

		£m				
Net interest income	2,996	1,757	1,786	856	616	1,104
Net fee and commission income	1,299	861	1,299	383	223	762
Principal transactions		22	82	165	169	111
Net premiums from insurance contracts	205		44	352		234
Other income	17	105	19	39	11	113
Total income	4,517	2,745	3,230	1,795	1,019	2,324
Net claims and benefits incurred on insurance contracts	(35)		(11)	(365)		(126)
Total income, net of insurance claims	4,482	2,745	3,219	1,430	1,019	2,198
Impairment charges and other credit provisions	(602)	(414)	(1,097)	(296)	(166)	(347)
Net income	3,880	2,331	2,122	1,134	853	1,851
Operating expenses	(2,519)	(1,063)	(1,422)	(929)	(719)	(1,305)
Share of post-tax results of associates and joint ventures	8	(2)	(3)			5
Profit on disposal of subsidiaries						1
Gains on acquisitions			92	52		
Profit before tax	1,369	1,266	789	257	134	552
As at 31st December 2008						
Total assets	101,384	84,029	30,925	64,732	14,653	40,391
Total liabilities	104,640	64,997	3,004	37,250	10,517	20,720

Investment Banking and Investment Management

Barclays Capital profit before tax was £1,302m in a very challenging market, down 44%, and included a gain on the acquisition of Lehman Brothers North American businesses of £2,262m. Net income of £2,808m was down 55% as the impact of market dislocation continued and included gross losses of £8,053m, partially offset by related income and hedges of £1,433m and gains of £1,663m from the general widening of credit spreads on structured notes issued by Barclays Capital. There were record performances in interest rate products, currency products, emerging markets, prime services and commodities. Equities, credit products, mortgages and asset backed securities and private equity were significantly impacted by market dislocation and recorded lower income than in 2007. Operating expenses, after absorbing Lehman Brothers North American businesses, were 5% lower than in 2007 due to lower performance related pay.

Barclays Global Investors profit before tax decreased 19% to £595m. Income fell 4% to £1,844m due to lower incentive fees. Operating expenses increased 5% and included charges of £263m (2007: £80m) related to selective support of liquidity products. Total assets under management were US$1,495bn, reflecting net new assets of US$99bn, negative market moves of US$553bn and adverse exchange rate movements of US$130bn.

Barclays Wealth profit before tax grew 119% to £671m, including a £326m profit on disposal of the closed life business, which contributed profit before tax of £104m before disposal. Income growth of 3% to £1,324m reflected strong growth in customer deposits and lending, partially offset by the impact of lower equity markets on fee income. Operating expenses decreased 4% reflecting strong cost control. Total client assets increased 10% (£12.6bn) to £145.1bn, with net new asset inflows and the acquisition of Lehman Brothers North American businesses offsetting the impact of negative market movements and the sale of the closed life business.

Analysis of results by business

For the year ended 31st December 2008

	Barclays Capital	Barclays Global Investors	Barclays Wealth
	£m	£m	£m
Net interest income	1,724	(38)	486
Net fee and commission income	1,429	1,917	720
Principal transactions	2,065	(43)	(344)
Net premiums from insurance contracts			136
Other income	13	8	26
Total income	5,231	1,844	1,024
Net claims and benefits incurred on insurance contracts			300
Total income, net of insurance claims	5,231	1,844	1,324
Impairment charges and other credit provisions	(2,423)		(44)
Net income	2,808	1,844	1,280
Operating expenses	(3,774)	(1,249)	(935)
Share of post-tax results of associates and joint ventures	6		
Profit on disposal of subsidiaries			326
Gain on acquisition	2,262		
Profit before tax	1,302	595	671
As at 31st December 2008			
Total assets	1,629,117	71,340	13,263
Total liabilities	1,603,093	68,372	45,846

Analysis of results by business

Global Retail and Commercial Banking

UK Retail Banking

UK Retail Banking comprises Personal Customers, Home Finance, Local Business, Consumer Lending and Barclays Financial Planning. We have one of the largest branch networks in the UK with around 1,700 branches and an extensive network of cash machines.

What we do

We are transforming Barclays to be the best bank in the UK by designing innovative, simple and transparent propositions, streamlining operating platforms and further leveraging Barclays Group capabilities.

Our cluster of businesses aims to build broader and deeper relationships with customers. Personal Customers and Home Finance provide a wide range of products and services to retail customers, including current accounts, savings and investment products, mortgages branded Woolwich and general insurance. Barclays Financial Planning provides banking, investment products and advice to affluent customers.

Local Business provides banking services to small businesses. UK Retail Banking is also a gateway to more specialised services from other parts of Barclays such as Barclays Stockbrokers.

Our business serves 15.2 million UK customers.

Performance

2008/07

UK Retail Banking profit before tax increased 7% (£94m) to £1,369m (2007: £1,275m) through solid income growth and continued good control of impairment and costs. The launch of new products and propositions supported a significant increase in customer accounts, with Current Accounts increasing 4% (0.4m) to 11.7m (2007: 11.3m), Savings

Accounts increasing 8% (0.9m) to 12.0m (2007: 11.1m) and Mortgage Accounts increasing 8% (62,000) to 816,000 (2007: 754,000).

Income grew 4% (£185m) to £4,482m (2007: £4,297m) reflecting strong growth in Home Finance and solid growth in Consumer Lending and Local Business, partially offset by reduced income from Personal Customer Savings Accounts due to the impact of the reductions in the UK base rates in the second half of 2008.

Net interest income increased 5% (£138m) to £2,996m (2007: £2,858m) driven by strong growth in loans and advances. Total average customer deposit balances increased 5% to £85.9bn (2007: £81.8bn), reflecting solid growth in Personal Customer and Local Business balances. The average liabilities margin declined to 2.01% (2007: 2.15%) reflecting the reductions in UK base rates in the second half of 2008.

Mortgage balances grew 18%, driven by increased share of new lending and higher levels of balance retention. Mortgage balances were £82.3bn at the end of the period (31st December 2007: £69.8bn), a market share of 7% (2007: 6%). Gross advances were stable at £22.9bn, with redemptions of £10.4bn (2007: £15.0bn). Net new lending was £12.5bn (2007: £8.0bn), a market share [b] of 36% (2007: 8%). The average loan to value ratio of the mortgage book (including buy-to-let) on a current valuation basis was 40% (2007: 34%). The average loan to value ratio of new mortgage lending was 47% (2007: 49%). The assets margin increased to 1.25% (2007: 1.20%) reflecting increased returns from mortgages.

Net fee and commission income increased 10% (£116m) to £1,299m (2007: £1,183m) reflecting £116m settlements on overdraft fees in 2007. Excluding this, net fees and commissions were stable.

Impairment charges increased 8% (£43m) to £602m (2007: £559m), reflecting growth in customer assets of 15% and the impact of the current economic environment. Mortgage impairment charges were £24m (2007: release of £3m). Impairment charges within Consumer Lending increased 3%.

Highlights

Performance indicators

Key facts

	2008	2007	2006
Personal Customers			
Number of UK current accounts[a]	11.7m	11.3m	11.5m
Number of UK savings accounts	12.0m	11.1m	11.0m
Total UK mortgage balances	£ 82.3bn	£ 69.8bn	£ 61.7bn
Local Business			
Number of Local Business customers	660,000	643,000	630,000

Notes

a Decrease in 2007 reflects the consolidation of Woolwich and Barclays current accounts.
b Excludes Housing Associations.

Operating expenses increased 2% (£49m) to £2,519m (2007: £2,470m) reflecting reduced gains from the sale of property of £75m (2007: £193m). Continued strong and active management of expense lines, including back-office consolidation and process efficiencies, funded increased investment in product development and distribution channels.

The cost:income ratio improved one percentage point to 56% (2007: 57%).

2007/06

UK Retail Banking profit before tax increased 8% (£94m) to £1,275m (2006: £1,181m) due to reduced costs and a strong improvement in impairment.

Income grew 2% (£67m) before the impact of settlements on overdraft fees in relation to prior years (£116m). This was driven by very strong growth in Personal Customer retail savings and good growth in Personal Customer current accounts, Home Finance and Local Business. Including the impact of settlements on overdraft fees, income decreased £49m to £4,297m (2006: £4,346m).

Net interest income increased 3% (£93m) to £2,858m (2006: £2,765m). Growth was driven by a higher contribution from deposits, through a combination of good balance sheet growth and an increased liability margin. Total average customer deposit balances increased 7% to £81.9bn (2006: £76.5bn), supported by the launch of new products.

Mortgage volumes increased significantly, driven by an improved mix of longer term value products for customers, higher levels of retention and continuing improvements in processing capability. Mortgage balances were £69.8bn at the end of the period (2006: £61.7bn), an approximate market share of 6% (2006: 6%). Gross advances were 25% higher at £23.0bn (2006: £18.4bn). Net lending was £8.0bn (2006: £2.4bn), representing market share of 8% (2006: 2%). The average loan to value

ratio of the residential mortgage book on a current valuation basis was 33%. The average loan to value ratio of new residential mortgage lending in 2007 was 54%. Consumer Lending balances decreased 4% to £7.9bn (2006: £8.2bn), reflecting the impact of tighter lending criteria.

Overall asset margins decreased as a result of the increased proportion of mortgages and contraction in unsecured loans.

Net fee and commission income reduced 4% (£49m) to £1,183m (2006: £1,232m). There was strong Current Account income growth in Personal Customers and good growth within Local Business. This was more than offset by settlements on overdraft fees.

Net premiums from insurance underwriting activities reduced 26% (£90m) to £252m (2006: £342m), as there continued to be lower customer take-up of loan protection insurance. Net claims and benefits on insurance contracts increased to £43m (2006: £35m).

Impairment charges decreased 12% (£76m) to £559m (2006: £635m) reflecting lower charges in unsecured Consumer Lending and Local Business. This was driven by improvements in the collection process which led to reduced flows into delinquency, lower levels of arrears and stable charge-offs. Mortgage impairment charges remained negligible.

Operating expenses reduced 2% (£62m) to £2,470m (2006: £2,532m), reflecting strong and active management of all expense lines, targeted processing improvements and back-office consolidation. Gains from the sale of property were £193m (2006: £253m). Increased investment was focused on improving the overall customer experience through converting and improving the branch network; revitalising the product offering; increasing operational and process efficiency; and meeting regulatory requirements.

The cost:income ratio improved one percentage point to 57%. Excluding the impact of settlements on overdraft fees, the cost:income ratio improved two percentage points to 56%.

UK Retail Banking

	2008	2007	2006

	£m	£m	£m
Income statement information			
Net interest income	**2,996**	2,858	2,765
Net fee and commission income	**1,299**	1,183	1,232
Net premiums from insurance contracts	**205**	252	342
Other income	**17**	47	42
Total income	**4,517**	4,340	4,381
Net claims and benefits on insurance contracts	**(35)**	(43)	(35)
Total income net of insurance claims	**4,482**	4,297	4,346
Impairment charges	**(602)**	(559)	(635)
Net income	**3,880**	3,738	3,711
Operating expenses excluding amortisation of intangible assets	**(2,499)**	(2,461)	(2,531)
Amortisation of intangible assets	**(20)**	(9)	(1)
Operating expenses	**(2,519)**	(2,470)	(2,532)
Share of post-tax results of associates and joint ventures	**8**	7	2
Profit before tax	**1,369**	1,275	1,181
Balance sheet information			
Loans and advances to customers	**£ 94.4bn**	£ 82.0bn	£ 74.7bn
Customer accounts	**£ 89.6bn**	£ 87.1bn	£ 82.3bn
Total assets	**£ 101.4bn**	£ 88.5bn	£ 81.7bn
Performance ratios			
Return on average economic capital	**27%**	28%	28%
Cost:income ratio	**56%**	57%	58%
Cost:net income ratio	**65%**	66%	68%
Other financial measures			
Risk tendency	**£ 520m**	£ 470m	£ 500m
Economic profit	**£ 633m**	£ 617m	£ 590m
Risk weighted assets[a]	**£ 30.5bn**	£ 31.5bn	£ 43.0bn

Note

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

Analysis of results by business

Global Retail and Commercial Banking

Barclays Commercial Bank

Barclays Commercial Bank is one of the UK s leading providers of banking solutions to business customers and clients with an annual turnover of more than £1m.

What we do

Barclays Commercial Bank provides banking services to more than 81,000 customers in the UK via a network of relationship, regional, industry-sector and product specialists.

Working closely with our clients to understand their needs, we deliver financing, risk management, trade and cash management solutions constructed from a comprehensive suite of products, expertise and services. This includes specialist asset financing and leasing facilities.

Performance

2008/07

Barclays Commercial Bank profit before tax decreased 7% (£91m) to £1,266m (2007: £1,357m) reflecting a resilient performance in challenging market conditions. The impact of growth in net fee and commission income and continued strong growth in customer lending was offset by increased impairment charges and higher operating expenses.

Income increased 7%(£181m)to£2,745m (2007:£2,564m).

Net interest income improved 1% (£10m) to £1,757m (2007: £1,747m). There was strong growth in average customer assets, particularly term loans, which increased 14% to £61.7bn (2007: £53.9bn) reflecting the continued commitment to lend to viable businesses. The assets margin decreased 25 basis points to 1.55% (2007: 1.80%) due, in part, to a continued focus on lower risk term lending. Average customer accounts grew 3% to £47.6bn (2007: £46.4bn), and the deposit margin declined slightly to 1.47% (2007: 1.49%) partly reflecting the reductions in UK base rates in the second half of 2008.

Non-interest income increased to 36% of total income (2007: 32%) partly reflecting continued focus on cross sales and efficient balance sheet utilisation. Net fee and commission income increased 15% (£111m) to £861m (2007: £750m) due to increased income from foreign exchange, derivative sales and debt fee income.

Income from principal transactions fell to £22m (2007: £56m) due to lower equity realisations.

Other income of £105m (2007: £11m) included a £39m gain arising from the restructuring of Barclays interest in a third party finance operation. This gain was offset by a broadly similar tax charge. Other income also included £29m (2007: £7m) rental income from operating leases.

Highlights

Performance indicators

Key facts

	2008	2007	2006
Number of customers	81,200	83,800	77,100
Number of colleagues	9,800	9,200	8,100

Impairment charges increased 42% (£122m) to £414m (2007: £292m) primarily reflecting higher impairment losses in Larger Business, particularly in the final quarter as the UK corporate credit environment deteriorated. Impairment as a percentage of period-end loans and advances to customers and banks increased to 0.60% (2007: 0.45%).

Operating expenses increased 14% (£134m) to £1,063m (2007: £929m) reflecting lower gains on the sale of property of £10m (2007: £40m), investment in a new payments capability (2008: £69m, 2007: £42m), growth in the operating lease business (2008: £31m, 2007: £7m) and investment in risk and operations infrastructure, sales force capability and product specialists.

2007/06

Barclays Commercial Bank profit before tax decreased £5m to £1,357m (2006: £1,362m) due to continued good income growth partially offset by lower gains from business disposals. Profit before business disposals increased 4% to £1,343m (2006: £1,286m).

Income increased 7% (£160m) to £2,564m (2006: £2,404m). Non-interest income increased to 32% of total income (2006: 29%), reflecting continuing focus on cross sales and efficient balance sheet utilisation. There was very strong growth in net fee and commission income, which increased 17% (£107m) to £750m (2006: £643m) due to very strong performance in lending fees. There was also good growth in transaction

related income, foreign exchange and derivatives transactions undertaken on behalf of clients.

Net interest income improved 2% (£37m) to £1,747m (2006: £1,710m). Average customer lendings increased 3% to £53.9bn (2006: £52.3bn) and 5%, excluding the impact of the vehicle leasing and European vendor finance businesses sold in 2006. Average customer accounts grew 4% to £46.4bn (2006: £44.8bn). The asset margin decreased by 12 basis points to 1.80%, reflecting an increased focus on higher quality lending and competitive market conditions. The liabilities margin remained broadly stable at 1.49%.

Income from principal transactions primarily reflecting venture capital and other equity realisations increased 87% (£26m) to £56m (2006: £30m).

Impairment charges increased 15% (£39m) to £292m (2006: £253m), mainly due to a higher level of impairment losses in Larger Business as impairment trended towards risk tendency. There was a reduction in impairment levels in Medium Business due to a tightening of the lending criteria.

Operating expenses increased 7% (£61m) to £929m (2006: £868m). Operating expenses are net of gains of £39m (2006: £60m) on the sale of property. Growth in operating expenses was focused on continuing investment in operations, infrastructure, and new initiatives in product development and sales capability.

Barclays Commercial Bank

	2008	2007	2006
	£m	£m	£m
Income statement information			
Net interest income	**1,757**	1,747	1,710
Net fee and commission income	**861**	750	643
Net trading income	**3**	9	2

Net investment income	**19**	47	28
Principal transactions	**22**	56	30
Other income	**105**	11	21
Total income	**2,745**	2,564	2,404
Impairment charges and other credit provisions	**(414)**	(292)	(253)
Net income	**2,331**	2,272	2,151
Operating expenses excluding amortisation of intangible assets	**(1,048)**	(924)	(867)
Amortisation of intangible assets	**(15)**	(5)	(1)
Operating expenses	**(1,063)**	(929)	(868)
Share of post-tax results of associates and joint ventures	**(2)**		3
Profit on disposal of subsidiaries, associates and joint ventures		14	76
Profit before tax	**1,266**	1,357	1,362
Balance sheet information			
Loans and advances to customers	**£ 67.5bn**	£ 63.7bn	£ 56.6bn
Loans and advances to customers including those designated at fair value	**£ 80.5bn**	£ 70.7bn	£ 62.1bn
Customer accounts	**£ 60.6bn**	£ 60.8bn	£ 57.4bn
Total assets	**£ 84.0bn**	£ 74.6bn	£ 66.2bn
Performance ratios			
Return on average economic capital	**26%**	30%	36%
Cost:income ratio	**39%**	36%	36%
Cost:net income ratio	**46%**	41%	40%
Other financial measures			
Risk Tendency	**£ 400m**	£ 305m	£ 300m
Economic profit	**£ 544m**	£ 635m	£ 729m
Risk weighted assets[a]	**£ 63.1bn**	£ 57.0bn	£ 50.3bn

Note

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

Analysis of results by business

Global Retail and Commercial Banking

Barclaycard

Barclaycard is a multi-brand international credit card, consumer lending and payment processing business. Our credit card was the first to be launched in the UK in 1966 and is now one of the leading credit card businesses in Europe, with a fast growing business in the United States and South Africa.

What we do

In the UK our activities include all Barclaycard branded credit cards, secured lending business and Barclays Partner Finance, our retail finance business. In addition to these activities, Barclaycard also operates partnership cards with leading brands such as SkyCard. We continue to lead the UK market and we strengthened our position in 2008 with the purchase of the Goldfish portfolio, adding more than 1m customers to our growing customer base.

Barclaycard s international presence continues to grow very strongly, with international customers now almost equalling the number in the UK. We currently operate in Germany, South Africa and the United States, where we are one of the fastest-growing credit card businesses. In Scandinavia, we operate through Entercard, a joint venture with Swedbank.

Our payment processing business, Barclaycard Business, processes card payments for 89,000 retailers and merchants, and issues credit and charge cards to corporate customers and the UK Government. It is Europe s number one issuer of Visa Commercial Cards with over 132,000 corporate customers.

Performance

2008/07

Barclaycard profit before tax increased 31% (£186m) to £789m (2007: £603m), driven by strong international income growth and lower UK impairment charges. 2008 profit included £40m from the acquisition of, and contribution from, Goldfish, Discover s UK credit card business, acquired on 31st March 2008. The scale of the UK and international businesses increased substantially with total customer numbers up 31% to 23.3m.

Income increased 27% (£689m) to £3,219m (2007: £2,530m), reflecting strong growth in Barclaycard International and £156m from the inclusion of Goldfish, partially offset by a decline in FirstPlus following its closure to new business.

Net interest income increased 30% (£412m) to £1,786m (2007: £1,374m), driven by 58% growth in international average extended credit card balances to £5.2bn. The margin increased to 6.92% (2007: 6.51%), due to a change in the product mix with an increased weighting to card lending, following the decision to stop writing new business in FirstPlus.

Net fee and commission income increased 14% (£156m) to £1,299m (2007: £1,143m), driven by growth in Barclaycard International.

Investment income increased £69m to £80m (2007: £11m), reflecting a £64m gain from the Visa IPO and a £16m gain from the sale of shares in MasterCard.

Other income increased £44m to £19m (2007: £25m loss), reflecting a gain from a portfolio sale in the United States. 2007 results reflected a £27m loss on disposal of part of the Monument card portfolio.

Impairment charges increased 33% (£270m) to £1,097m (2007: £827m), reflecting £252m growth in charges in the international businesses and £68m from the inclusion of Goldfish. These factors were partially offset by £50m lower impairment in the other UK businesses with reduced flows into delinquency and lower levels of arrears.

Highlights

Performance indicators

Key facts

	2008	2007	2006
Number of Barclaycard UK customers	11.7m	10.1m	9.8m
UK credit cards average outstanding balances	£ 9.9bn	£ 8.4bn	£ 9.4bn
UK credit cards average extended credit balances	£ 8.0bn	£ 6.9bn	£ 8.0bn
Number of Barclaycard International customers	11.6m	7.7m	6.0m
International average outstanding balance	£ 6.5bn	£ 4.1bn	£ 3.1bn
International average extended credit balances	£ 5.2bn	£ 3.3bn	£ 2.5bn
Secured lending average outstanding balance	£ 4.7bn	£ 4.3bn	£ 3.4bn
Number of retailer relationships	89,000	93,000	93,000

Operating expenses increased 30% (£329m) to £1,422m (2007: £1,093m), reflecting continued international growth and increased marketing investment. Operating expenses reflected Goldfish expenses of £140m, including restructuring costs of £64m.

The acquisition of Goldfish resulted in a gain on acquisition of £92m.

Barclaycard International maintained its strong growth momentum, delivering a 71% (£108m) increase in profit before tax to £260m (2007: £152m). Barclaycard US profit before tax was US$249m which exceeded delivery of the financial plan of US$150m set out at the time of acquisition. Strong balance sheet growth in Barclaycard US included US$1.9bn of credit card receivables acquired from FIA Card Services in August 2008, furthering the existing partnership agreement with US Airways. The acquisition of a majority stake in Woolworths Financial Services in October 2008, added 1.6 million customers to the existing Absa credit card business in South Africa. The Entercard joint venture with Swedbank continued to build presence in Norway, Sweden and Denmark.

2007/06

Barclaycard profit before tax increased 16% (£81m) to £603m (2006: £522m), driven by strong international growth coupled with a significant improvement in UK impairment charges. Other income included a £27m loss on disposal of part of the Monument card portfolio. 2006 results reflected a property gain of £38m.

Income decreased 2% (£46m) to £2,530m (2006: £2,576m), reflecting strong growth in Barclaycard International, offset by a decline in UK Cards revenue resulting from a more cautious approach to lending in the UK and a £27m loss on disposal of part of the Monument card portfolio.

Net interest income increased 1% (£11m) to £1,374m (2006: £1,363m), due to strong organic growth in international average

extended credit card balances, up 32% to £3.3bn and average secured consumer lending balances up 26% to £4.3bn, partially offset by lower UK average extended credit card balances which fell 14% to £6.9bn. Margins fell to 6.51% (2006: 7.05%) due to higher average base rates across core operating markets and a change in the product mix with an increased weighting to secured lending.

Net fee and commission income fell 3% (£40m) to £1,143m (2006: £1,183m), with growth in Barclaycard International offset by our actions in response to the Office of Fair Trading s findings on late and overlimit fees in the UK which were implemented in August 2006.

Impairment charges improved 21% (£226m) to £827m (2006: £1,053m), reflecting reduced flows into delinquency, lower levels of arrears and lower charge-offs in UK Cards. We made changes to our impairment methodologies to standardise our approach and in anticipation of Basel II. The net positive impact of these changes in methodology was offset by an increase in impairment charges in Barclaycard International and secured consumer lending.

Operating expenses increased 10% (£100m) to £1,093m (2006: £993m). Excluding a property gain of £38m in 2006, operating expenses increased 6% (£62m), reflecting continued investment in expanding our businesses in Europe and the United States. Costs in the UK businesses were broadly flat, with investment in new UK product innovations such as Barclaycard OnePulse being funded out of operating efficiencies.

Barclaycard International continued to gain momentum, delivering a profit before tax of £152m against a profit before tax of £8m in 2006. The Entercard joint venture continued to perform ahead of plan and entered the Danish market, extending its reach across the Scandinavian region. Barclaycard US was profitable, with very strong average balance growth and a number of new card partnerships, including Lufthansa Airlines and Princess Cruise Lines.

Barclaycard

	2008	2007	2006
	£m	£m	£m

Income statement information			
Net interest income	**1,786**	1,374	1,363
Net fee and commission income	**1,299**	1,143	1,183
Net tracking income	**2**		
Net investment income	**80**	11	20
Principal transactions	**82**	11	20
Net premiums from insurance contracts	**44**	40	18
Other income	**19**	(25)	
Total income	**3,230**	2,543	2,584
Net claims and benefits incurred on insurance contracts	**(11)**	(13)	(8)
Total income net of insurance claims	**3,219**	2,530	2,576
Impairment charges and other credit provisions	**(1,097)**	(827)	(1,053)
Net income	**2,122**	1,703	1,523
Operating expenses excluding amortisation of intangible assets	**(1,361)**	(1,057)	(969)
Amortisation of intangible assets	**(61)**	(36)	(24)
Operating expenses	**(1,422)**	(1,093)	(993)
Share of post-tax results of associates and joint ventures	**(3)**	(7)	(8)
Gain on acquisition	**92**		
Profit before tax	**789**	603	522
Balance sheet information			
Loans and advances to customers	**£ 27.4bn**	£ 19.7bn	£ 18.1bn
Total assets	**£ 30.9bn**	£ 22.1bn	£ 20.0bn
Performance ratios			
Return on average economic capital	**23%**	20%	19%
Cost: income ratio	**44%**	43%	39%
Cost: net income ratio	**67%**	64%	65%
Other financial measures			
Risk Tendency	**£ 1,475m**	£ 955m	£ 1,090m
Economic profit	**£ 335m**	£ 213m	£ 183m
Risk weighted assets [a]	**£ 27.3bn**	£ 20.2bn	£ 16.9bn

Note

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

Analysis of results by business

Global Retail and Commercial Banking

Western Europe

GRCB Western Europe comprises our retail and commercial banking operations as well as our Barclaycard businesses in Spain, Portugal, France and Italy.

What we do

GRCB Western Europe serves more than 2m retail and commercial banking customers in France, Italy, Portugal and Spain through a variety of distribution channels including 961 branches, 184 sales centres and 988 ATMs.

GRCB Western Europe provides a variety of products and services including retail mortgages, current and deposit accounts, commercial lending, unsecured lending, credit cards, investments and insurance products, serving the needs of Barclays retail, mass affluent and corporate customers.

Performance

2008/07

GRCB Western Europe profit before tax grew 31% (£61m) to £257m (2007: £196m), despite challenging market conditions in Spain and accelerated investment in the expansion of the franchise. Distribution points increased 347 to 1,145 (2007: 798), including 149 in Italy. Strong income growth including gains of £82m from the Visa IPO and the sale of shares in MasterCard was partially offset by increased impairment and higher operating costs. Profit before tax was favourably impacted by the 16% appreciation in the average value of the Euro against Sterling.

Income increased 53% (£493m) to £1,430m (2007: £937m), reflecting growth in both net interest income and net fee and commission income.

Net interest income increased 62% (£329m) to £856m (2007: £527m), driven by a 63% increase in customer liabilities to £15.3bn (2007: £9.4bn) and a 53% increase in customer assets to £53.5bn (2007: £35.0bn).

Net fee and commission income increased 19% (£61m) to £383m (2007: £322m). Increased fees in retail and in the life insurance businesses were offset by lower market-related investment revenue.

Principal transactions grew £59m to £165m (2007: £106m) including

gains from the Visa IPO (£65m) and the sale of shares in MasterCard (£17m) which enabled GRCB Western Europe to invest in the expansion of the business.

Impairment charges increased £220m to £296m (2007: £76m). This increase was principally due to higher charges in Spanish commercial property (£82m) and deterioration of the Spanish credit card portfolio (£66m) as a consequence of the rapid slowdown in the Spanish economy.

Operating expenses increased 38% (£256m) to £929m (2007: £673m), reflecting the rapid expansion of the retail distribution network and the strengthening of the Premier segment. Operating expenses also included £55m (2007: £22m) gains from the sale of property.

Gain on acquisition of £52m (2007: £nil) arose from the purchase of the Italian residential mortgage business of Macquarie Bank Limited in November 2008.

2007/06

GRCB Western Europe profit before tax increased 21% (£34m) to £196m (2006: £162m). The performance reflected strong income growth driven by an increase in distribution points of 145 to 798 (2006: 653).

Income increased 25% (£186m) to £937m (2006: £751m), reflecting strong growth in net fee and commission income and principal transactions.

Net interest income increased 21% (£91m) to £527m (2006: £436m), driven by a 38% increase in customer liabilities to £9.4bn (2006: £6.8bn) and a 30% increase in customer assets to £35.0bn (2006: £26.9bn).

Net fee and commission income increased 30% (£74m) to £322m (2006: £248m), driven by the expansion of the customer base.

Principal transactions grew 34% (£27m) to £106m (2006: £79m), reflecting gains on equity investments.

Impairment charges grew 100% (£38m) to £76m (2006: £38m), reflecting very strong balance sheet growth.

Operating expenses grew 22% (£123m) to £673m (2006: £550m), driven by the expansion of the distribution network. Operating expenses included property sales in Spain of £22m (2006: £55m).

Highlights

Performance indicators

Key facts

	2008	2007	2006
Number of distribution points	**1,145**	798	653

GRCB Western Europe

	2008	2007	2006
	£m	£m	£m
Income statement information			
Net interest income	856	527	436
Net fee and commission income	383	322	248
Net trading income	4	13	14
Net investment income	161	93	65
Principal transactions	165	106	79
Net premiums from insurance contracts	352	145	110
Other income	39	7	16
Total income	1,795	1,107	889
Net claims and benefits incurred under insurance contracts	(365)	(170)	(138)
Total income net of insurance claims	1,430	937	751
Impairment charges	(296)	(76)	(38)
Net income	1,134	861	713
Operating expenses excluding amortisation of intangible assets	(915)	(665)	(542)
Amortisation of intangible assets	(14)	(8)	(8)
Operating expenses	(929)	(673)	(550)
Share of post-tax results of associates and joint ventures			(1)
Profit on disposal of subsidiaries, associates and joint ventures		8	
Gain on acquisition	52		
Profit before tax	257	196	162
Balance sheet information			
Loans and advances to customers	£ 53.5bn	£ 35.0bn	£ 26.9bn
Customer accounts	£ 15.3bn	£ 9.4bn	£ 6.8bn
Total assets	£ 64.7bn	£ 43.7bn	£ 33.5bn
Performance ratios			
Return on average economic capital	19%	11%	11%
Cost: income ratio	65%	72%	73%
Cost: net income ratio	82%	78%	77%
Other financial measures			
Risk Tendency	£ 270m	£ 135m	£ 90m
Economic profit	£ 164m	£ 16m	£ 9m
Risk weighted assets[a]	£ 36.5bn	£ 25.0bn	£ 17.6bn

Note

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

Analysis of results by business

Global Retail and Commercial Banking

Emerging Markets

GRCB Emerging Markets comprises our retail and commercial banking operations, as well as our Barclaycard businesses, in 14 countries across Africa, the Middle East and South East Asia.

What we do

GRCB Emerging Markets serves retail and commercial banking customers in Botswana, Egypt, Ghana, India, Kenya, Mauritius, Pakistan, Russia, Seychelles, Tanzania, Uganda, the UAE, Zambia and Zimbabwe.

Through a network of more than 830 distribution points and 1,440 ATMs, we provide 4.2m customers and clients with a full range of products and services. This includes current accounts, savings, investments, mortgages and secured and unsecured lending.

Performance

2008/07

GRCB Emerging Markets profit before tax increased 34% (£34m) to £134m (2007: £100m). Very strong income growth, including £82m from the Visa IPO and the sale of shares in MasterCard, absorbed the increased investment across existing and new markets and higher impairment charges. The number of distribution points increased 286 to 836 (2007: 550). New market entries in 2008 comprised the acquisition of Expobank in Russia, the launch of a new business in Pakistan and the announced acquisition of Bank Akita in Indonesia.

Income increased 91% (£486m) to £1,019m (2007: £533m), reflecting growth in lending, deposit taking and fee-driven transactional revenues.

Net interest income increased 93% (£297m) to £616m (2007: £319m), loans and advances to customers increased 98% to £10.1bn (2007: £5.1bn). The assets margin decreased 167 basis points to 4.95% (2007: 6.62%), reflecting higher funding costs, partially offset by improvement in the product mix. Customer accounts increased 55% to £9.6bn (2007: £6.2bn). The deposit margin improved 142 basis points to 2.17% (2007: 0.75%), driven by a change in the product mix and a higher return from funding the assets.

Highlights

Performance indicators

Key facts

	2008	2007	2006
Number of distribution points	**836**	550	214
Average liabilities balances	**£7.6bn**	£5.1bn	£4.0bn
Average asset balances	**£7.1bn**	£3.6bn	£2.3bn

Net fee and commission income increased 59% (£83m) to £223m (2007: £140m), primarily driven by very strong growth in commercial banking and treasury fee income.

Principal transactions increased £97m to £169m (2007: £72m), reflecting higher foreign exchange income, a gain of £68m relating to the Visa IPO and a gain of £14m from the sale of shares in MasterCard.

Impairment charges increased £127m to £166m (2007: £39m), reflecting higher assets and delinquencies, particularly in India and increased wholesale impairment in Africa.

Operating expenses increased 82% (£324m) to £719m (2007: £395m), reflecting continued investment in new markets and expansion of the business in existing markets, with investment in infrastructure and the roll-out of global platforms.

2007/06

GRCB Emerging Markets profit before tax decreased 74% to £100m (2006: £384m). The performance in 2006 reflected the sale of First Carribean International Bank which resulted in a profit of £247m in December 2006. In addition, profits of £41m were generated by the First Carribean business up to date of sale. Excluding First Carribean, the performance reflected very strong income growth driven by a rapid growth

in distribution points to 550 (2006: 214), as well as the launch of new businesses in India and UAE.

Income increased 35% (£137m) to £533m (2006: £396m) driven by new business in India and UAE and excellent performances in Egypt, Kenya and Ghana.

Net interest income increased 30% (£73m) to £319m (2006: £246m). Total customer loans increased 89% (£2.4bn) to £5.1bn (2006: £2.7bn) with lending margins improving with changing product mix. Customer deposits increased 47% (£2.0bn) to £6.2bn (2006: £4.2bn), driven by growth across the markets.

Net fee and commission income declined marginally (£1m) to £140m (2006: £141m).

Principal transactions increased £68m to £72m (2006: £4m), reflecting gains on equity investments and higher foreign exchange income across markets.

Impairment charges rose 30% (£9m) to £39m (2006: £30m). The increase reflected very strong balance sheet growth in 2006 and 2007.

Operating expenses grew 46% (£125m) to £395m (2006: £270m), driven by the rapid expansion of the distribution network across all markets and investment in people and infrastructure to support future growth across the franchise.

GRCB Emerging Markets

	2008 £m	2007 £m	2006 £m
Income statement information			
Net interest income	616	319	246
Net fee and commission income	223	140	141
Net trading income	78	56	3
Net investment income	91	16	1
Principal transactions	169	72	4
Net premiums from insurance contracts			1

Other income	**11**	2	4
Total income	**1,019**	533	396
Impairment charges	**(166)**	(39)	(30)
Net income	**853**	494	366
Operating expenses excluding amortisation of intangible assets	**(711)**	(391)	(269)
Amortisation of intangible assets	**(8)**	(4)	(1)
Operating expenses	**(719)**	(395)	(270)
Share of post-tax results of associates and joint ventures		1	41
Profit on disposal of subsidiaries, associates and joint ventures			247
Profit before tax	**134**	100	384
Balance sheet information			
Loans and advances to customers	**£ 10.1bn**	£ 5.1bn	£ 2.7bn
Customer accounts	**£ 9.6bn**	£ 6.2bn	£ 4.2bn
Total assets	**£ 14.7bn**	£ 9.2bn	£ 5.2bn
Performance ratios			
Return on average economic capital	**9%**	15%	103%
Cost: income ratio	**71%**	74%	68%
Cost: net income ratio	**84%**	80%	74%
Other financial measures			
Risk Tendency	**£ 350m**	£ 140m	£ 35m
Economic profit	**£ (11m)**	£ 26m	£ 308m
Risk weighted assets [a]	**£ 15.1bn**	£ 10.5bn	£ 3.3bn

Note

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

Analysis of results by business

Global Retail and Commercial Banking

Absa

GRCB Absa comprises three operating divisions: Retail Banking, Commercial Banking and a Bancassurance division. The Absa Group s other businesses are Absa Capital and Absa Card, which are included in Barclays Capital and Barclaycard respectively.

What we do

GRCB Absa forms part of Absa Group Limited, one of South Africa s largest financial services groups, listed on the Johannesburg Stock Exchange Limited. GRCB Absa offers a complete range of banking products and services, including current accounts, savings products, bancassurance, mortgages, instalment finance and wealth management. It also offers customised business solutions for commercial and large corporate customers.

Absa s business is conducted primarily in South Africa. In addition to this, the Group has equity holdings in banks in Mozambique, Angola and Tanzania.

Absa serves more than 10m customers through a range of physical channels that include 1,177 distribution points and 8,719 ATMs, as well as electronic channels such as telephone and online banking.

Performance

2008/07

Impact of Absa Group Limited on Barclays Results

Absa Group Limited profit before tax of R15,209m (2007: R14,077m), which increased 8%, is translated into Barclays results at an average exchange rate of R15.17/£ (2007: R14.11/£), a 7% depreciation in the

average value of the Rand against Sterling. Consolidation adjustments reflected the amortisation of intangible assets of £49m (2007: £47m) and internal funding and other adjustments of £169m (2007: £129m). The resulting profit before tax of £785m (2007: £822m) is represented within GRCB Absa £552m (2007: £597m), Barclays Capital £175m (2007: £155m) and Barclaycard £58m (2007: £70m).

Absa Group Limited s total assets were R773,758m (31st December 2007: R640,909m), growth of 21%. This is translated into Barclays results at a period end exchange rate of R13.74/£ (2007: R13.64/£).

Global Retail and Commercial Banking Absa

GRCB Absa profit before tax decreased 8% (£45m) to £552m (2007: £597m), owing to challenging market conditions and the 7% depreciation in the average value of the Rand against Sterling. Profit before tax included a gain of £47m relating to the Visa IPO. Very strong Rand income growth was partially offset by increased impairment and investment in the expansion of the franchise by 176 distribution points to 1,177 (2007: 1,001).

Total income increased 10% (£211m) to £2,324m (2007: £2,113m).

Net interest income improved 5% (£49m) to £1,104m (2007: £1,055m) reflecting strong balance sheet growth. Average customer assets increased 9% to £27.7bn (2007: £25.3bn), primarily driven by retail and commercial mortgages and commercial cheque accounts. The assets margin increased to 2.79% (2007: 2.70%) as a result of a focus on pricing for risk and a change in the composition of the book, partially offset by the higher cost of wholesale funding. Average customer liabilities increased 17% to £13.5bn (2007: £11.5bn), primarily driven by retail savings, with margins down 15 basis points to 3.06% (2007: 3.21%) reflecting the emphasis on liquidity and strong growth in lower margin retail deposits.

Net fee and commission income increased 11% (£78m) to £762m (2007: £684m), underpinned by retail transaction volume growth.

Highlights

Performance indicators

Key facts

	2008	2007	2006
Number of ATMs	8,719	8,162	7,411
Number of corporate customers	107,000	100,000	84,000

Principal transactions increased £41m to £111m (2007: £70m) reflecting gains on economic hedges relating to the commercial property finance and liquid asset portfolios.

Other income increased £36m to £113m (2007: £77m), reflecting a gain of £47m from the Visa IPO.

Impairment charges increased £201m to £347m (2007: £146m) as a result of rising delinquency levels in the retail portfolios, which have been impacted by rising interest and inflation rates and increasing consumer indebtedness.

Operating expenses increased 3% (£38m) to £1,305m (2007: £1,267m). The cost:income ratio improved from 63% to 59%.

2007/06

Impact of Absa Group Limited on Barclays results

Absa Group Limited s profit before tax of R14,077m (2006: R11,417m) is translated into Barclays results at an average exchange value of R14.11/£ (2006: R12.47/£), a 12% depreciation in the average value of the Rand against Sterling. Consolidation adjustments reflected the amortisation of intangible assets of £47m (2006: £69m) and internal funding and other adjustments of £129m (2006: £97m). The resulting profit before tax of £822m (2006: £750m) is represented within GRCB Absa £597m (2006: £609m), Barclays Capital £155m (2006: £71m) and Barclaycard £70m (2006: £70m).

Absa Group Limited s total assets were R640,909m (2006: R495,112m), a growth of 29%. This is translated into Barclays results at a period-end exchange rate of R13.64/£ (2006: R13.71/£). The capital investment was hedged against currency movements in 2007.

Global Retail and Commercial Banking Absa

GRCB Absa profit before tax decreased 2% (£12m) to £597m (2006: £609m) mainly owing to the weaker currency. The impact of the weaker

currency was offset by very good performances from Retail Banking and Absa Corporate and Business Bank. Key factors impacting the results included: very strong asset and income growth; the diversification of earnings in favour of investment banking and commercial banking; an increased retail credit impairment charge, and the achievement of the Absa Barclays synergy target 18 months ahead of schedule.

Income decreased 2% (£32m) to £1,999m (2006: £2,031m).

Net interest income increased by 7% (£72m) to £1,055m (2006: £983m), driven by growth in loans and advances and deposits at improved margins. Loans and advances to customers increased 27% from 31st December 2006 mainly driven by growth of 23% in mortgages.

Net fee and commission income decreased by 9% (£70m) to £684m (2006: £754m) mainly owing to the weaker currency. The increase in local currency reflects a growth of 3% underpinned by increased transaction volumes in Retail Banking and Absa Corporate and Business Bank.

Principal transactions decreased £36m to £70m (2006: £106m) reflecting losses on economic hedges relating to the commercial property finance and liquid asset portfolios.

Other income increased £23m to £77m (2006: £54m).

Impairment charges increased £34m to £146m (2006: £112m) from the cyclically low levels of recent years, Arrears in retail portfolios increased driven by interest rate increases in 2006 and 2007. Impairment charges as a percentage of loans and advances to customers was 0.49%, ahead of the 0.48% charge in 2006 but within long-term industry averages.

Operating expenses decreased 4% (£52m) to £1,267m (2006: £1,319m), resulting from the realisation of synergy benefits of R1,428m (£100m) to date thus achieving the synergy target of R1.4bn 18 months ahead of schedule. This was partially offset by the increased investment in new distribution outlets and staff in order to support continued growth in volumes and customers.

GRCB Absa

	2008 £m	2007 £m	2006 £m
Income statement information			
Net interest income	1,104	1,055	983
Net fee and commission income	762	684	754
Net trading income/(expense)	6		(11)
Net investment income	105	70	117
Principal transactions	111	70	106
Net premiums from insurance contracts	234	227	240
Other income	113	77	54
Total income	2,324	2,113	2,137
Net claims and benefits incurred under insurance contracts	(126)	(114)	(106)
Total income net of insurance claims	2,198	1,999	2,031
Impairment charges	(347)	(146)	(112)
Net income	1,851	1,853	1,919
Operating expenses excluding amortisation of intangible assets	(1,255)	(1,212)	(1,250)
Amortisation of intangible assets	(50)	(55)	(69)
Operating expenses	(1,305)	(1,267)	(1,319)
Share of post-tax results of associates and joint ventures	5	6	9
Profit on disposal of subsidiaries, associates and joint ventures	1	5	
Profit before tax	552	597	609
Balance sheet information			
Loans and advances to customers	£ 32.7bn	£ 29.9bn	£ 23.5bn
Customer accounts	£ 17.0bn	£ 13.0bn	£ 10.9bn
Total assets	£ 40.4bn	£ 36.4bn	£ 29.6bn
Performance ratios			
Return on average economic capital	20%	20%	29%
Cost:income ratio	59%	63%	65%
Cost:net income ratio	71%	68%	69%
Other financial measures			
Risk Tendency	£ 255m	£ 190m	£ 130m
Economic profit	£ 70m	£ 98m	£ 138m
Risk weighted assets[a]	£ 18.8bn	£ 17.8bn	£ 19.8bn

Note

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

Analysis of results by business

Investment Banking and Investment Management

Barclays Capital

Barclays Capital is a leading global investment bank providing large corporate, government and institutional clients with a full spectrum of solutions to their strategic advisory, financing and risk management needs.

What we do

Barclays Capital is a global investment bank, which offers clients the full range of services covering strategic advisory and M&A; equity and fixed income capital raising and corporate lending; and risk management across foreign exchange, interest rates, equities and commodities.

Activities are organised into three principal areas: Global Markets, which includes commodities, credit products, equities, foreign exchange, interest rate products; Investment Banking, which includes corporate advisory, Mergers and Acquisitions, equity and fixed-income capital raising and corporate lending; and Private Equity and Principal Investments. Barclays Capital includes Absa Capital, the investment banking business of Absa.

Barclays Capital works closely with all other parts of the Group to leverage synergies from client relationships and product capabilities.

Performance

2008/07

In an exceptionally challenging market environment Barclays Capital profit before tax decreased 44% (£1,033m) to £1,302m (2007: £2,335m). Profit before tax included a gain on the acquisition of Lehman Brothers North American businesses of £2,262m. Absa Capital profit before tax grew 13% to £175m (2007: £155m).

Net income included gross losses of £8,053m (2007: £2,999m) due to continuing dislocation in the credit markets. These losses were partially offset by income and hedges of £1,433m (2007: £706m), and gains of £1,663m (2007: £658m) from the general widening of credit spreads on structured notes issued by Barclays Capital. The gross losses, comprised £6,290m (2007: £2,217m) against income and £1,763m (2007: £782m) in impairment charges. Further detail is provided on page 107.

The integration of the Lehman Brothers North American businesses is complete and the acquired businesses made a positive contribution, with

good results in equities, fixed income and advisory. There was a gain on acquisition of £2,262m. Not included in this gain is expenditure relating to integration of the acquired business.

Income was down 27% at £5,231m (2007: £7,119m) driven by the impact of the market dislocation. Underlying income, which excludes the gross losses, related income and hedges, and gains on the widening of credit spreads was 6% above the prior year and included strong contributions from interest rates, currency products, emerging markets, prime services and commodities. There was very strong underlying growth in the US driven by fixed income, prime services and the acquired businesses. In other regions income fell driven by the challenging environment.

Net trading income decreased 60% (£2,233m) to £1,506m (2007: £3,739m) reflecting losses from the credit market dislocation and weaker performance in credit products and equities. This was partially offset by significant growth in interest rates, foreign exchange, emerging markets and prime services. Average DVaR at 95% increased by 64% to £53.4m driven by higher credit spread and interest rate risk.

Net investment income decreased 41% (£394m) to £559m reflecting the market conditions. Net interest income increased 46% (£545m) to £1,724m (2007: £1,179m), driven by strong results in global loans and money markets. Net fee and commission income from advisory and origination activities increased 16% (£194m) to £1,429m. The corporate lending portfolio, including leveraged finance, increased 46% to £76.6bn (31st December 2007: £52.3bn) driven by the decline in the value of Sterling relative to other currencies as well as draw downs on existing loan facilities and the extension of new loans at current terms to financial and manufacturing institutions.

Impairment charges and other credit provisions of £2,423m (2007: £846m) included £1,763m (2007: £782m) due to the credit market dislocation. Other impairment charges of £660m (2007: £64m) principally related to private equity, prime services and the loan book.

Operating expenses fell 5% (£199m) to £3,774m (2007: £3,973m) due to lower performance related pay, partially offset by operating costs of the acquired businesses. The cost:net income ratio increased to 134% (2007: 63%) and the compensation cost:net income ratio increased to 82% (2007: 47%). Amortisation of intangible assets increased £38m to £92m (2007: £54m).

Total headcount increased 6,900 to 23,100 (31st December 2007: 16,200). Prior to the acquisition of Lehman Brothers North American businesses, headcount during 2008 was materially unchanged except for hiring associated with the annual global graduate programme. The acquisition initially added 10,000 to the headcount but there were reductions in the fourth quarter as the US businesses were integrated.

Highlights

Performance indicators

Key facts

League table rankings	2008	2007	2006
Rankings:			
Global All Bonds	1	2	1
US Investment Grade	3	10	7
US Government Securities Survey	1	1	8
Foreign Exchange Survey	3	5	4
US M&A	4		

2007/06

Barclays Capital delivered profits ahead of the record results achieved in 2006 despite challenging trading conditions in the second half of the year. Profit before tax increased 5% (£119m) to £2,335m (2006: £2,216m). There was strong income growth across the Rates businesses and excellent results in Continental Europe, Asia and Africa demonstrating the breadth of the client franchise. Net income was slightly ahead at £6,273m (2006: £6,225m) and costs were tightly managed, declining slightly year on year. Absa Capital delivered very strong growth in profit before tax to £155m (2006: £71m).

The US sub-prime driven market dislocation affected performance in the second half of 2007. Exposures relating to US sub-prime were actively managed and declined over the period. Barclays Capital s 2007 results reflected gross losses of £2,999m (2006: £nil) due to the dislocation of credit markets. These losses were partially offset by income and hedges of £706m (2006: £nil) and gains of £658m (2006: £nil) from the general widening of credit spreads on structured notes issued by Barclays Capital. The gross losses comprised £2,217m (2006: £nil) against income and £782m (2006: £nil) in impairment charges.

Income increased 14% (£852m) to £7,119m (2006: £6,267m) as a result of very strong growth in interest rate, currency, equity, commodity and emerging market asset classes. There was excellent income growth in continental Europe, Asia, and Africa. Average DVaR increased 13% to £42m (2006: £37.1m) in line with income.

Secondary income, comprising principal transactions (net trading income and net investment income), is mainly generated from providing client financing and risk management solutions. Secondary income increased 11% (£578m) to £5,871m (2006: £5,293m).

Net trading income increased 5% (£177m) to £3,739m (2006: £3,562m) with strong contributions from fixed income, commodities, equities, foreign exchange and prime services businesses. These were largely offset by net losses in the business affected by sub-prime

mortgage related write-downs. The general widening of credit spreads that occurred over the course of the second half of 2007 also reduced the carrying value of the £40.7bn of structured notes issued by Barclays Capital held at fair value on the balance sheet, resulting in gains of £658m (2006: £nil). Net investment income increased 66% (£380m) to £953m (2006: £573m) as a result of a number of private equity realisations, investment disposals in Asia and structured capital markets transactions. Net interest income increased 2% (£21m) to £1,179m (2006: £1,158m), driven by higher contributions from money markets. The corporate lending portfolio increased 29% to £52.3bn (2006: £40.6bn), largely due to an increase in drawn leveraged finance positions and a rise in drawn corporate loan balances.

Primary income, which comprises net fee and commission income from advisory and origination activities, grew 30% (£283m) to £1,235m (2006: £952m), with good contributions from bonds and loans.

Impairment charges and other credit provisions of £846m included £722m against ABS CDO Super Senior exposures, £60m from other credit market exposures and £58m relating to drawn leveraged finance underwriting positions. Other impairment charges on loans and advances amounted to a release of £7m (2006: £44m release) before impairment charges on available for sale assets of £13m (2006: £86m).

Operating expenses decreased 1% (£36m) to £3,973m (2006: £4,009m). The cost:net income ratio improved to 63% (2006: 64%) and the compensation cost:net income ratio improved by two percentage points to 47% (2006: 49%). Performance related pay, discretionary investment spend and short term contractor resources represented 42% (2006: 50%) of the cost base. Amortisation of intangible assets of £54m (2006: £13m) principally related to mortgage service rights.

Total headcount increased 3,000 during 2007 to 16,200 (2006: 13,200) including 800 from the acquisition of EquiFirst. The majority of organic growth was in Asia Pacific.

	2008	2007	2006
	£m	£m	£m
Income statement information			
Net interest income	**1,724**	1,179	1,158
Net fee and commission income	**1,429**	1,235	952
Net trading income	**1,506**	3,739	3,562
Net investment income	**559**	953	573
Principal transactions	**2,065**	4,692	4,135
Other income	**13**	13	22
Total income	**5,231**	7,119	6,267
Impairment charges and other credit provisions	**(2,423)**	(846)	(42)
Net income	**2,808**	6,273	6,225
Operating expenses excluding amortisation of intangible assets	**(3,682)**	(3,919)	(3,996)
Amortisation of intangible assets	**(92)**	(54)	(13)
Operating expenses	**(3,774)**	(3,973)	(4,009)
Share of post-tax results of associates and joint ventures	**6**	35	
Gain on acquisition	**2,262**		
Profit before tax	**1,302**	2,335	2,216
Balance sheet information			
Total assets	**£ 1,629.1bn**	£ 839.9bn	£ 657.9bn
Performance ratios			
Return on average economic capital	**20%**	33%	41%
Cost:income ratio	**72%**	56%	64%
Cost:net income ratio	**134%**	63%	64%
Compensation:net income ratio	**82%**	47%	49%
Other financial measures			
Risk Tendency	**£ 415m**	£ 140m	£ 95m
Economic profit	**£ 825m**	£ 1,172m	£ 1,181m
Risk weighted assets[a]	**£ 227.4bn**	£ 178.2bn	£ 137.6bn
Average DVaR (95%)[b]	**£ 53.4m**	£ 32.5m	£ 37.1m
Average net income generated per member of staff (000)	**£ 151**	£ 410	£ 565
Corporate lending portfolio	**£ 76.6bn**	£ 52.3bn	£ 40.6bn

Notes

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

b Average DVaR for 2007 and 2006 are calculated with a 98% confidence level.

Analysis of results by business

Investment Banking and

Investment Management

Barclays Global Investors

Barclays Global Investors (BGI) is one of the world s largest asset managers and a leading global provider of investment management products and services. We are the global leader in assets and products in the exchange traded funds business, with 360 funds for institutions and individuals trading globally. BGI s investment philosophy is founded on managing all dimensions of performance: a consistent focus on controlling risk, return and cost.

With a 3,000-plus strong workforce, we currently have over £1trn in assets under management, for 3,000 clients around the world.

What we do

BGI offers structured investment strategies such as indexing, global asset allocation and risk controlled active products including hedge funds and provides related investment services such as securities lending, cash management and portfolio transition services.

BGI collaborates with the other Barclays businesses, particularly Barclays Capital and Barclays Wealth, to develop and market products and leverage capabilities to better serve the client base.

Performance

2008/07

Barclays Global Investors profit before tax decreased 19% (£139m) to £595m (2007: £734m). Profit was impacted by the cost of provision of selective support of liquidity products of £263m (2007: £80m) and an 8% appreciation in the average value of the US Dollar against Sterling.

Income declined 4% (£82m) to £1,844m (2007: £1,926m).

Net fee and commission income declined 1% (£19m) to £1,917m (2007: £1,936m). This was primarily attributable to reduced incentive fees of £49m (2007: £198m), partially offset by increased securities lending revenue.

Operating expenses increased 5% (£57m) to £1,249m (2007: £1,192m). Operating expenses included charges of £263m (2007: £80m) related to selective support of liquidity products, partially offset by a reduction in performance related costs. The cost:income ratio increased to 68% (2007: 62%).

Highlights

Performance indicators

Key facts

	2008	2007	2006
Assets under management (£):	1,040bn	1,044bn	927bn
indexed	653bn	615bn	566bn
iShares	226bn	205bn	147bn
active	161bn	224bn	214bn
Net new assets in period (£)	61bn	42bn	37bn
Assets under management (US$):	1,495bn	2,079bn	1,814bn
indexed	939bn	1,225bn	1,108bn
iShares	325bn	408bn	287bn
active	231bn	446bn	419bn
Net new assets in period (US$)	99bn	86bn	68bn
Number of iShares products	360	324	191
Number of institutional clients	3,000	3,000	2,900

Total assets under management remained flat at £1,040bn (2007: £1,044bn) comprising £61bn of net new assets, £234bn of favourable exchange movements and £299bn of adverse market movements. In US Dollar terms assets under management decreased 28% (US$584bn) to US$1,495bn (2007: US$2,079bn), comprising US$99bn of net new assets, US$130bn of negative exchange rate movements and US$553bn of negative market movements.

2007/06

Barclays Global Investors delivered solid growth in profit before tax, which increased 3% (£20m) to £734m (2006: £714m). Very strong US Dollar income and strong profit growth was partially offset by the 8% depreciation in the average value of the US Dollar against Sterling.

Income grew 16% (£261m) to £1,926m (2006: £1,665m).

Net fee and commission income grew 17% (£285m) to £1,936m (2006: £1,651m). This was primarily attributable to increased management fees and securities lending. Incentive fees increased 6% (£12m) to £198m (2006: £186m). Higher asset values, driven by higher market levels and good net new inflows, contributed to the growth in income.

Operating expenses increased 25% (£241m) to £1,192m (2006: £951m) as a result of significant investment in key product and channel growth initiatives and in infrastructure as well as growth in the underlying business. Operating expenses included charges of £80m (2006: £nil) related to selective support of liquidity products managed in the US. The cost:income ratio rose five percentage points to 62% (2006: 57%).

Headcount increased 700 to 3,400 (2006: 2,700). Headcount increased in all geographical regions and across product groups and the support functions, reflecting continued investment to support further growth.

Total assets under management increased 13% (£117bn) to £1,044bn (2006: £927bn) comprising £42bn of net new assets, £12bn attributable to the acquisition of Indexchange Investment AG (Indexchange), £66bn of favourable market movements and £3bn of adverse exchange movements. In US Dollar terms assets under management increased 15% (US$265bn) to US$2,079bn (2006: US$1,814bn), comprising US$86bn of net new assets, US$23bn attributable to acquisition of Indexchange, US$127bn of favourable market movements and US$29bn of positive exchange rate movements.

Barclays Global Investors

	2008	2007	2006
	£m	£m	£m
Income statement information			
Net interest (expense)/income	(38)	(8)	10
Net fee and commission income	1,917	1,936	1,651
Net trading income	(14)	5	2
Net investment (expense)/income	(29)	(9)	2
Principal transactions	(43)	(4)	4
Other income	8	2	
Total income	1,844	1,926	1,665
Operating expenses excluding amortisation of intangible assets	(1,234)	(1,184)	(946)
Amortisation of intangible assets	(15)	(8)	(5)
Operating expenses	(1,249)	(1,192)	(951)
Profit before tax	595	734	714
Balance sheet information			

Total assets	**£ 71.3bn**	£ 89.2bn	£ 80.5bn
Performance ratios			
Return on average economic capital	**88%**	241%	228%
Cost:income ratio	**68%**	62%	57%
Other financial measures			
Economic profit	**£ 289m**	£ 430m	£ 376m
Risk weighted assets[a]	**£ 3.9bn**	£ 4.4bn	£ 1.4bn
Average net income generated per member of staff (000)	**£ 512**	£ 631	£ 666

Note

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

Analysis of results by business

Investment Banking and Investment Management

Barclays Wealth

Barclays Wealth focuses on high net worth, affluent and intermediary clients worldwide. We are the UK s leading wealth manager by client assets. We have 7,900 staff in over 20 countries and have total client assets of £145bn. We have offices across the Americas following the acquisition of Lehman Brothers Private Investment Management in 2008.

What we do

Barclays Wealth provides international and private banking, fiduciary services, investment management, and brokerage.

We work closely with all other parts of the Group to leverage synergies from client relationships and product capabilities, for example, offering world-class investment solutions with institutional quality products and services from Barclays Capital and Barclays Global Investors.

Performance

2008/07

Barclays Wealth profit before tax grew 119% (£364m) to £671m (2007: £307m). Profit before gains on disposal increased 12% (£38m) driven by solid income growth and tight cost control, offset by an increase in impairment charges. The closed life assurance business contributed profit before tax of £104m (2007: £110m) prior to its sale in October 2008, which generated a profit on disposal of £326m.

Income increased 3% (£37m) to £1,324m (2007: £1,287m).

Net interest income increased 13% (£55m) to £486m (2007: £431m) reflecting strong growth in both customer deposits and lending. Average deposits grew 19% to £37.2bn (2007: £31.2bn). Average lending grew 31% to £9.7bn (2007: £7.4bn). The assets margin decreased seven basis points to 1.04% (2007: 1.11%) reflecting changes in the product mix. The liabilities margin reduced by eight basis points to 0.95% (2007: 1.03%) driven by changes in the product mix and compression of margins as interest rates reduced during the second half of the year.

Net fee and commission income decreased 3% (£19m) to £720m (2007: £739m) driven by falling equity markets partially offset by increased client assets.

Net investment income, net premiums from insurance contracts and net claims and benefits paid on insurance contracts related wholly to the closed life assurance business. Their overall net impact on income increased marginally to £103m (2007: £95m). The decrease in net investment income, driven by a fall in the value of unit linked contracts and reduced premium income, were offset by reduced net claims and benefits as a result of a fall in the value of linked and non-linked liabilities.

Impairment charges increased £37m to £44m (2007: £7m) from a very low base. This increase reflected both the substantial increase in the loan book over the last three years and the impact of the current economic environment on client liquidity and collateral values.

Operating expenses decreased 4% to £935m (2007: £973m) with significant cost savings including a reduction in performance related costs partially offset by increased expenditure in upgrading technology and operating platforms and continued hiring of client-facing staff.

Highlights

Performance indicators

Key facts

	2008	2007	2006
Total client assets	**£ 145.1bn**	£ 132.5bn	£ 116.1bn

Total client assets, comprising customer deposits and client investments, increased 10% (£12.6bn) to £145.1bn (2007: £132.5bn) with underlying net new asset inflows of £3.2bn and the acquisition of the Lehman Brothers North American businesses offsetting the impact of market and foreign exchange movements and the sale of the closed life assurance book.

2007/06

Barclays Wealth profit before tax showed very strong growth of 25% (£62m) to £307m (2006: £245m). Performance was driven by broadly based income growth, reduced redress costs and tight cost control, partially offset by additional volume-related costs and increased investment in people and infrastructure to support future growth.

Income increased 11% (£127m) to £1,287m (2006: £1,160m).

Net interest income increased 10% (£39m) to £431m (2006: £392m), reflecting strong growth in both customer deposits and lending. Average deposits grew 13% to £31.2bn (2006: £27.7bn). Average lending grew 35% to £7.4bn (2006: £5.5bn), driven by increased lending to high net worth, affluent and intermediary clients. Assets margin increased three basis points to 1.11% (2006: 1.08%), reflecting changes in the product mix. The liabilities margin reduced by seven basis points to 1.03% (2006: 1.10%) driven by competitive pricing of products.

Net fee and commission income grew 10% (£65m) to £739m (2006: £674m). This reflected growth in client assets and higher transactional income from increased sales of investment products and solutions.

Principal transactions decreased £101m to £55m (2006: £156m) as a result of lower growth in the value of unit linked insurance contracts. Net premiums from insurance contracts reduced £15m to £195m (2006: £210m). These reductions were offset by a lower charge for net claims and benefits incurred under insurance contracts of £152m (2006: £288m).

Operating expenses increased 7% to £973m (2006: £913m) with greater volume-related costs and a significant increase in investment partially offset by efficiency gains and lower customer redress costs of £19m (2006: £67m). Ongoing investment programmes included increased hiring of client-facing staff and improvements to infrastructure with the upgrade of technology and operations platforms. The cost:income ratio improved three percentage points to 76% (2006: 79%).

Total client assets, comprising customer deposits and client investments, increased 14% (£16.4bn) to £132.5bn (2006: £116.1bn), reflecting strong net new asset inflows and the acquisition of Walbrook, an independent fiduciary services company, which completed on 18th May 2007.

Barclays Wealth

	2008	2007	2006
	£m	£m	£m
Income statement information			
Net interest income	**486**	431	392
Net fee and commission income	**720**	739	674
Net trading income	**(11)**	3	2
Net investment income	**(333)**	52	154
Principal transactions	**(344)**	55	156
Net premiums from insurance contracts	**136**	195	210
Other income	**26**	19	16
Total income	**1,024**	1,439	1,448
Net claims and benefits incurred on insurance contracts	**300**	(152)	(288)
Total income net of insurance claims	**1,324**	1,287	1,160

Impairment charges	**(44)**	(7)	(2)
Net income	**1,280**	1,280	1,158
Operating expenses excluding amortisation of intangible assets	**(919)**	(967)	(909)
Amortisation of intangible assets	**(16)**	(6)	(4)
Operating expenses	**(935)**	(973)	(913)
Profit on disposal of associates and joint ventures	**326**		
Profit before tax	**671**	307	245
Balance sheet information			
Loans and advances to customers	**£ 11.4bn**	£ 9.0bn	£ 6.2bn
Customer accounts	**£ 42.4bn**	£ 34.4bn	£ 28.3bn
Total assets	**£ 13.3bn**	£ 18.2bn	£ 15.0bn
Performance ratios			
Return on average economic capital	**118%**	51%	40%
Cost:income ratio	**71%**	76%	79%
Cost:net income ratio	**73%**	76%	79%
Other financial measures			
Risk Tendency	**£ 20m**	£ 10m	£ 10m
Economic profit	**£ 553m**	£ 233m	£ 130m
Risk weighted assets [a]	**£ 10.3bn**	£ 8.2bn	£ 6.1bn
Average net income generated per member of staff (000)	**£ 176**	£ 188	£ 181

Note

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

Analysis of results by business

Head office functions and other operations

Head office functions and other operations comprises:

Head office and central support functions

Businesses in transition

Inter-segment adjustments

What we do

Head office and central support functions comprises the following areas: Executive Management, Finance, Treasury, Corporate Affairs, Human Resources, Strategy and Planning, Internal Audit, Legal, Corporate Secretariat, Property, Tax, Compliance and Risk. Costs incurred wholly on behalf of the businesses are recharged to them.

Businesses in transition principally relate to certain lending portfolios that are centrally managed with the objective of maximising recovery from the assets.

Performance

2008/07

Head office functions and other operations loss before tax increased £430m to £858m (2007: £428m).

Total income decreased £185m to a loss of £377m (2007: loss of £192m).

Group segmental reporting is performed in accordance with Group accounting policies. This means that inter-segment transactions are recorded in each segment as if undertaken on an arm s length basis. Adjustments necessary to eliminate inter-segment transactions are included in Head office functions and other operations. The impact of such inter-segment adjustments increased £32m to £265m (2007: £233m). These adjustments included internal fees for structured capital market activities of £141m (2007: £169m) and fees paid to Barclays Capital for debt and equity raising and risk management advice of £151m (2007: £65m), both of which reduce net fees and commission income.

Net interest income increased £54m to £182m (2007: £128m) primarily due to a consolidation adjustment between net interest income and trading income required to match the booking of certain derivative hedging transactions between different segments in the Group. This resulted in a £111m increase in net interest income to £143m (2007: £32m) with an equal and opposite decrease in principal transactions.

This was partially offset by an increase in costs in central funding activity due to the money market dislocation, in particular LIBOR resets.

Principal transactions loss increased £135m to £218m (2007: £83m) reflecting the £111m increase in consolidation reclassification adjustment on derivative hedging transactions.

Impairment charges increased £27m to £30m (2007: £3m) mainly reflecting losses on Floating Rate Notes held for hedging purposes.

Operating expenses increased £217m to £451m (2007: £234m). The main drivers of this increase were: a £101m charge for the Group s share of levies that will be raised by the UK Financial Services Compensation Scheme; £64m costs relating to an internal review of Barclays compliance with US economic sanctions; the non-recurrence of a £58m break fee relating to the ABN Amro transaction; lower rental income and lower proceeds on property sales.

2007/06

Head office functions and other operations loss before tax increased £169m to £428m (2006: £259m).

Group segmental reporting is performed in accordance with Group accounting policies. This means that inter-segment transactions are recorded in each segment as if undertaken on an arm s length basis. Adjustments necessary to eliminate inter-segment transactions are included in Head office functions and other operations.

The impact of such inter-segment adjustments increased £86m to £233m (2006: £147m). These adjustments included internal fees for structured capital market activities of £169m (2006: £87m) and fees paid to Barclays Capital for debt and equity raising and risk management advice of £65m (2006: £23m), both of which increased net fee and commission expense in Head office. The impact on the inter-segment adjustments of the timing of the recognition of insurance commissions included in Barclaycard was a reduction in Head office income of £9m (2006: £44m). This net reduction was reflected in a decrease in net fee and commission income of £162m (2006: £184m) and an increase in net premium income of £153m (2006: £140m).

Principal transactions decreased to a loss of £83m (2006: £42m profit). 2006 included a £55m profit from a hedge of the expected Absa foreign currency earnings.

Operating expenses decreased £35m to £234m (2006: £269m). The primary driver of this decrease was the receipt of a break fee relating to the ABN AMRO transaction which, net of transaction costs, reduced expenses by £58m. This was partially offset by lower rental income and lower proceeds on property sales.

Head office functions and other operations

	2008 £m	2007 £m	2006 £m
Income statement information			
Net interest income	**182**	128	80
Net fee and commission income	**(486)**	(424)	(301)
Net trading (loss)/income	**(245)**	(66)	40
Net investment income/(expense)	**27**	(17)	2
Principal transactions	**(218)**	(83)	42
Net premiums from insurance contracts	**119**	152	139
Other income	**26**	35	39
Total income	**(377)**	(192)	(1)
Impairment (charges)/releases	**(30)**	(3)	11
Net income	**(407)**	(195)	10
Operating expenses excluding amortisation of intangible assets	**(451)**	(233)	(259)
Amortisation of intangible assets		(1)	(10)
Operating expenses	**(451)**	(234)	(269)
Profit on disposal of associates and joint ventures		1	
Loss before tax	**(858)**	(428)	(259)
Balance sheet information			
Total assets	**£ 3.1bn**	£ 5.7bn	£ 7.1bn
Other financial measures			
Risk Tendency	**£ 5m**	£ 10m	£ 10m
Risk weighted assets [a]	**£ 0.4bn**	£ 1.1bn	£ 1.9bn

Note

a Risk weighted assets for 2008 and 2007 are calculated under Basel II. 2006 is calculated under Basel I.

Corporate sustainability

Sustainability and Barclays

At Barclays, we recognise that our sustainability values have an increased importance in the current financial climate. We are focused on: supporting our existing customers; being a bank that welcomes all potential customers; being an equal opportunity employer; our commitment to climate change; and ensuring we behave at all times as a responsible global citizen.

Doing this effectively helps us to reduce our risk and positions us well to capture commercial opportunities arising from the global transition towards a more sustainable future.

Developing our strategic framework

To measure our success in integrating sustainability into our business we have addressed the broad sustainability agenda through five key themes:

- Customers and Clients
- Inclusive Banking
- Diversity and Our People
- Environment
- Responsible Global Citizenship

These themes resonate in our businesses, provide a platform for action, and give us a clear purpose and direction. Implementation is driven by actionable goals and robust performance measurement.

We manage and report our progress on the sustainability topics of most significance to our business and our stakeholders. We have determined this in part through:

- our research initiatives and partnerships
- dialogue with our stakeholders including customers, investors governments, non-governmental organisations, consumer groups, and journalists across our markets globally
- internal and external focus groups including hosting consumer roundtables in the UK.

Stakeholder insight and feedback on our sustainability agenda is vital, and encourages us to be open and transparent about the issues our stakeholders are concerned about.

Measuring progress

We aim to measure and monitor our sustainability progress both internally and externally. In 2008, we developed a framework for regular progress reports to the Group Executive Committee and the Board. It provides consistent tracking of our progress by sustainability theme and Business Unit.

Barclays participates in a number of external indices, forums and initiatives which help to measure our progress including the Dow Jones Sustainability Index and FTSE4Good. In 2008, Barclays ranked joint first in the Carbon Disclosure Project s Leadership Index.

Customers and clients

In 2008, amid widespread uncertainty in financial markets and the wider global economy, it was vital to stay close to our clients and customers, who we recognise have a choice where they bank.

During the year, we worked to help our customers and clients cope with the challenging economic circumstances. Our record of lending responsibly has allowed us to continue mortgage lending in the UK, increasing our share of net new lending from 8% in 2007 to 36% in 2008.

We increased lending to UK SMEs by 6% to a total of £15bn. We also provided support to small businesses in the UK and South Africa and also made significant investment in the Barclays Business Support team which is dedicated to helping business customers in financial difficulty in the UK.

In addition, we have committed to lend an additional 10% (£1.5bn) to SMEs in the UK by the end of 2009. We continue to act on customer and client feedback to develop appropriate products and services to meet different needs.

Inclusive banking

For Barclays, inclusive banking means helping those who are excluded from the financial system to join and benefit from it.

We have dedicated accounts for people on low incomes across several countries in Africa. In 2008, these basic accounts made up 27% of our total current and savings accounts in Africa.

Absa, which has 10 million customers, is now the market leader for low income customers in South Africa those earning less than R3,000 (£200) a month with a market share of 33%.

We continued to support better access to financial products and services in the UK through our basic-level Cash Card Account, which is now held by more than 730,000 customers, and through partnerships with community finance organisations and charities which help excluded and vulnerable people in society.

In March 2008, Barclays launched the Hello Money service in India which allows customers to carry out banking transactions easily and securely over their mobile phones. Hello Money is already making a significant impact in giving access to financial services for people in India s rural areas.

Diversity and Our People

Barclays aims to provide a safe working environment in which employees are treated fairly and with respect, encouraged to develop, and rewarded on the basis of individual performance.

In 2008, Antony Jenkins, CEO Barclaycard was appointed Diversity and Inclusion Executive Champion to drive our diversity agenda across Global Retail and Commercial Banking. Initiatives in 2008 included establishing the requirement that every senior executive has a diversity objective linked to their performance goals.

In 2009, we intend to extend our Women s Leadership Programme, aimed at developing talented women employees, across all 15 countries in our GRCB Emerging Markets business with secondments of between 3 and 12 months.

Environment

We seek to minimise our environmental impact through reducing Barclays energy, water and waste footprints and managing the risks and opportunities associated with climate change.

Businesses have a vital role to play in managing and mitigating climate change. At Barclays, we recognise that we have an impact on the environment both directly through our own operations, and indirectly through our supply chain and corporate lending. We monitor and manage both sets of impacts.

In 2008, Barclays set environmental targets that apply to global operations. We will measure our performance over three years from 2009 to 2011 against a 2008 baseline.

The targets are to reduce:

- CO_2 emissions by 6% per employee, achieving an average 2% reduction per year
- energy use from buildings (excluding data centres) by 6% per employee, achieving an average 2% reduction per year
- water use by 6% per employee, achieving an average 2% reduction per year.

We made our UK and European operations carbon neutral by offsetting emissions from energy use and travel. We are on track to make our global banking operations carbon neutral by the end of 2009.

Environmental and social risk

The majority of the environmental and social risks associated with our business are indirect. These impacts arise through business relationships, including those with our supply chain and those with our clients through financing activities.

We apply our Environmental and Social Impact Assessment policy (ESIA) to projects that we are considering financing. In 2008, a total of 31 project finance deals were assessed against the Equator Principles, a set of social and environmental criteria adopted by many banks. In addition, the Environmental Risk Management team assessed 229 non-project finance transactions.

We continue to assess our environmental and social impact beyond the project finance remit of the Equator Principles and are working to include climate change and human rights considerations in these assessments.

Responsible global citizenship

We acknowledge and accept that we have an obligation to be a responsible global citizen, and our sustainability efforts help us to achieve this. This means managing our business and supply chain to improve our social, economic and environmental impact, and doing business ethically.

Community Investment

Investing in the communities in which we operate is an integral part of Barclays sustainability strategy. During 2008, we maintained our levels of investment in communities despite the challenging conditions. We invested £52.2m and more than 57,000 colleagues in 31 countries were involved in volunteering, fundraising and regular giving. In addition, Barclays launched a three-year global community investment partnership with UNICEF, the leading children s organisation, in which we committed to invest £5m.

Human Rights and Barclays

In June 2008, we refined our statement on human rights (first introduced in 2004) which outlines the approach we take to human rights through our three main areas of impact as an employer, as a provider of financial services to customers and clients, and as a purchaser of goods and services from suppliers. We aim to operate in accordance with the:

- Universal Declaration of Human Rights
- OECD Guidelines for Multinational Enterprises
- International Labour Organisation s Core Conventions.

Barclays is active in developing the global business and human rights agenda through our membership of two organisations the Business Leaders Initiative on Human Rights, launched in 2003 of which we are a founder member, and United Nations Environment Programme Finance Initiative (UNEP FI), for which we co-chair the Human Rights Workstream.

We extended the guidance provided to our employees on human rights in 2008 to include access to an online tool for front-line lending managers, which assists in identifying and mitigating human rights risks.

Supply chain

We work closely with our suppliers to help them manage their own impacts and ensure they share our commitment to sustainability. Our Group-wide sourcing process includes criteria for measuring and assessing our suppliers sustainability. Tenders for supplies deemed to have a potentially high sustainability impact or risk, such as print or corporate wear, require suppliers to complete our sustainable supply chain questionnaire on their sustainability impact, policies and management processes.

During 2008, we continued to engage directly with our suppliers on sustainability, both as part of our ongoing supplier relationships and to address specific issues such as reducing their carbon emissions.

Our people

Barclays aims to provide a safe working environment in which employees are treated fairly and with respect, encouraged to develop, and rewarded on the basis of individual performance. We are committed to ensuring equality to all employees on the basis of merit. Discrimination, bullying or harassment of any kind is not tolerated.

Our Guiding Principles set out the values that govern how we act. They are:

i)	Winning together	Doing what s right for Barclays, our teams and our colleagues, to achieve collective and individual success.
ii)	Best people	Developing and upgrading talented colleagues and differentiating rewards Doing what s needed to ensure a leading position in the global financial services industry.
iii)	Customer and client focus	Understanding what our customers and client focus clients want and need And then serving them brilliantly.
iv)	Pioneering	Driving new ideas, especially those that make us profitable and improve control Improving operational excellence Adding diverse skills to stimulate new perspectives and bold steps
v)	Trusted	Being trusted is the bedrock of a successful bank Acting with the highest levels of integrity to retain the trust of our customers, external stakeholders and our colleagues Taking full responsibility for our decisions and actions.

An international picture

	2008	2007 [a]
FTE by world region		
UK	**60,700**	61,900
Africa and Middle East	**55,700**	51,748
Continental Europe	**13,400**	9,750
Americas	**15,700**	6,413
Asia Pacific	**10,800**	5,089
Total	**156,300**	134,900
FTE by business unit		
UK Retail Banking	**30,400**	30,700
Barclays Commercial Bank	**9,800**	9,200
Barclaycard	**9,600**	8,900
GRCB Western Europe	**10,900**	8,800
GRCB Emerging Markets	**22,700**	13,900
GRCB Absa	**36,800**	35,800
Barclays Capital	**23,100**	16,200
Barclays Global Investors	**3,700**	3,400
Barclays Wealth	**7,900**	6,900
Head office and other operations	**1,400**	1,100
Total	**156,300**	134,900
Global employment statistics		
FTE	**156,300**	134,900

Total employee headcount	**161,000**	141,885
Percentage of female employees	**53.1%**	56.3%
Percentage of female senior executives	**15.2%**	13.7%
Percentage of female senior managers	**24.6%**	20.6%
Percentage working part time	**8.5%**	12.4%
Turnover rate	**20.9%**	18.3%
Resignation rate	**12.1%**	12.3%
Sickness absence rate [b]	**2.3%**	3.0%

Note

a 2007 UK data includes 1,000 BGI employees.

b Excludes Group Centre, BGI and Barclays Capital.

c Excludes BGI and Barclays Capital.

d Excludes BGI.

Global governance

Barclays manages its people through these Guiding Principles in a devolved manner. To maintain the right balance between overall control and effective local decision making we have established governance frameworks which are overseen by the Group Operational Committee, and compliance with them is monitored by the Group Human Resources Risk Committee.

Employee relations

Barclays recognises and works constructively with 30 employee representative organisations throughout the world. Employee consultations on significant operational changes are carried out in accordance with local legislation.

Our employee opinion surveys

Barclays businesses conduct employee opinion surveys, to suit the needs of each business. We benchmark the findings against other global financial services organisations and high-performing organisations, and create action plans to address any areas of concern.

Occupational health and safety

Barclays manages health and safety at a local level under the requirements of the health and safety governance framework. Key data on health and safety is reported regularly to the Board HR and Remuneration Committee.

Training and educating our people

Developing both existing and new employees is key to our future prosperity. We undertake this through formal and informal training and education, including mandatory training required by regulatory bodies and detailed on-the-job training and development.

UK employees

	2008	2007 [a]

UK employment statistics		
FTE	**60,700**	61,900
Average length of service (years)	**9.2**	9.7
Percentage working part time	**16.1%**	16.8%
Sickness absence rate [c]	**3.1%**	3.0%
Turnover rate	**19.3%**	16.6%
Resignation rate	**12.2%**	11.1%
Women in Barclays		
Percentage of all employees	**56.1%**	58.0%
Percentage of management grades	**28.0%**	28.4%
Percentage of senior executives	**14.6%**	13.0%
Ethnic minorities in Barclays		
Percentage of all employees	**12.3%**	12.3%
Percentage of management grades	**11.5%**	10.0%
Percentage of senior executives	**8.0%**	6.6%
Disabled employees in Barclays		
Percentage of all employees [d]	**2.0%**	3.4%
Age profile		
Employees under 25	**15.5%**	16.5%
Employees aged 25-29	**18.5%**	17.0%
Employees aged 30-49	**55.8%**	54.2%
Employees aged 50+	**10.2%**	10.3%
Pensions		
Barclays UK Retirement Fund active members	**58,316**	53,473
Current pensioners	**50,499**	48,607

Risk management

Risk factors 69

Barclays approach to risk management 74

Organisation and structure 75

Key elements 77

Credit risk management 79

Organisation and structure 80

Measurement, reporting and internal ratings 81

Credit risk mitigation 85

Analysis of total assets and credit risk exposures 87

Loans and advances 88

Debt securities and other bills 102

Derivatives 103

Barclays Capital credit market exposures 105

Market risk management 118

Organisation and structure 118

Traded market risk 119

Non-traded market risk 121

Disclosures about certain trading activities 122

Liquidity risk management 123

Organisation and structure 123

Key elements 124

Capital risk management 126

Organisation and structure 126

Key elements 127

Operational risk management 129

Organisation and structure 129

Measurement and capital modelling 130

Operational risk events 131

Financial crime risk management 132

Anti-money laundering and sanctions risk 132

Fraud risk 133

Security risk 133

Statistical information 134

Supervision and regulation 147

Risk factors

The following information sets forth certain risk factors that the Group believes could cause its actual future results to differ materially from expected results. However, other factors could also adversely affect the Group results and so the factors discussed in this report should not be considered to be a complete set of all potential risks and uncertainties.

Business conditions and general economy

The profitability of Barclays businesses could be adversely affected by the worsening of general economic conditions in the United Kingdom, globally or in certain individual markets such as the United States, Spain or South Africa. Factors such as interest rates, inflation, investor sentiment, the availability and cost of credit, foreign exchange risk, creditworthiness of counterparties, the liquidity of the global financial markets and the level and volatility of equity prices could significantly affect the Group s customers activity levels and financial position. For example:

- the current economic downturn or significantly higher interest rates or continued lack of credit availability to the Group s customers could adversely affect the credit quality of the Group s on-balance sheet and off-balance sheet assets by increasing the risk that a greater number of the Group s customers and counterparties would be unable to meet their obligations;
- a market downturn or further worsening of the economy could cause the Group to incur further mark to market losses in its trading portfolios;
- a further decline in the value of Sterling relative to other currencies could increase risk weighted assets and therefore the capital requirements of the Group;
- a further market downturn could reduce the fees the Group earns for managing assets. For example, a downturn in trading markets could affect the flows of assets under management; and
- a further market downturn would be likely to lead to a decline in the volume of transactions that the Group executes for its customers and, therefore, lead to a decline in the income it receives from fees and commissions and interest.

Current market volatility and recent market developments

The global financial system has been experiencing difficulties since August 2007 and financial markets have deteriorated dramatically since the bankruptcy filing of Lehman Brothers in September 2008. Despite measures taken by the United Kingdom and United States governments and the European Central Bank and other central banks to stabilise the financial markets, the volatility and disruption of the capital and credit markets have continued. Together with the significant declines in the property markets in the United Kingdom, the United States, Spain and other countries, these events over the past two years have contributed to significant write-downs of asset values by financial institutions, including government-sponsored entities and major retail, commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions, to be nationalised and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have substantially reduced and, in some cases, stopped their funding to borrowers, including other financial institutions.

While the capital and credit markets have been experiencing difficulties for some time, the volatility and disruption reached unprecedented levels in the final months of 2008 and economic activity started to contract in many of the economies in which the Group operates. These conditions have produced downward pressure on stock prices and credit capacity for certain issuers. The resulting lack of credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity could continue to materially and adversely affect the Group s business, financial condition and results of operations.

Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group s customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. The credit risk that the Group faces arises mainly from wholesale and retail loans and advances. However, credit risk may also arise where the downgrading of an entity s credit rating causes the fair value of the Group s investment in that entity s financial instruments to fall.

In a recessionary environment, such as that ongoing in the United Kingdom, the United States and other economies, credit risk increases. Credit risk may also be manifested as country risk where difficulties may arise in the country in which the exposure is domiciled, thus impeding or reducing the value of the assets, or where the counterparty may be the country itself.

Another form of credit risk is settlement risk, which is the possibility that the Group may pay a counterparty but fail to receive the corresponding settlement in return. The Group is exposed to many different industries and counterparties in the normal course of its business, but its exposure to counterparties in the financial services industry is particularly significant. This exposure can arise through trading, lending, deposit-taking, clearance and settlement and many other activities and relationships. These counterparties include brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients. Many of these relationships expose the Group to credit risk in the event of default of a counterparty and to systemic risk affecting its counterparties. Where the Group holds collateral against counterparty exposures, it may not be able to realise it or liquidate it at prices sufficient to cover the full exposures. Many of the hedging and other risk management strategies utilised by the Group also involve transactions with financial services counterparties. The failure of these counterparties to settle or the perceived weakness of these counterparties may impair the effectiveness of the Group s hedging and other risk management strategies.

The Group s credit risk governance structure, management and measurement methodologies, together with an analysis of exposures to credit risk is detailed in the Credit risk management section on page 80 and the Credit Risk note to the financial statements on page 264.

Barclays Capital credit market exposures

An analysis of Barclays Capital s credit market exposures is detailed on pages 106 to 118.

Market risk

Market risk is the risk that the Group s earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. Market risk has increased due to the volatility of the current financial markets.

The main market risk arises from trading activities. Barclays is also exposed to market risk through non-traded interest rate risk and the pension fund.

The Group s market risk governance structure, management and measurement methodologies, together with an analysis of exposures to both traded and non-traded market risk is detailed in the Market risk management section on page 119 and the Market Risk note to the financial statements on page 278. Pension risk is analysed in note 30 on page 234.

The Group s future earnings could be affected by depressed asset valuations resulting from a deterioration in market conditions. Financial markets are sometimes subject to stress conditions where steep falls in asset values can occur, as demonstrated by recent events affecting asset backed CDOs and the US sub-prime residential mortgage market and which may occur in other asset classes during an economic downturn. Severe market events are difficult to predict and, if they continue to occur, could result in the Group incurring additional losses.

In 2007 and in 2008, the Group recorded material net losses on certain credit market exposures, including ABS CDO Super Senior exposures. As market conditions change, the fair value of these exposures could fall further and result in additional losses or impairment charges, which could have a material adverse effect on the Group s earnings. Such losses or impairment charges could derive from: a decline in the value of exposures; a decline in the ability of counterparties, including monoline insurers, to meet their obligations as they fall due; or the ineffectiveness of hedging and other risk management strategies in circumstances of severe stress.

Liquidity risk

This is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in balance sheet and sales

of assets, or potentially an inability to fulfil lending commitments. This risk is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters. The Group s liquidity risk management has several components:

intra-day monitoring to maintain sufficient liquidity to meet all settlement obligations;

mismatch limits to control expected cash flows from maturing assets and liabilities;

Risk factors

- monitoring of undrawn lending commitments, overdrafts and contingent liabilities; and
- diversification of liquidity sources by geography and provider.

During periods of market dislocation, such as those currently ongoing, the Group s ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding as well as an increase in the cost of raising wholesale funds. Asset sales, balance sheet reductions and the increasing costs of raising funding will affect the earnings of the Group.

In illiquid markets, the Group may decide to hold assets rather than securitising, syndicating or disposing of them. This could affect the Group s ability to originate new loans or support other customer transactions as both capital and liquidity are consumed by existing or legacy assets.

The Group s liquidity risk management and measurement methodologies are detailed in the Liquidity Risk Management section on page 125 and the Liquidity Risk note to the financial statements on page 282.

Capital risk

Capital risk is the risk that the Group has insufficient capital resources to:

- meet minimum regulatory capital requirements in the UK and in other jurisdictions such as the United States and South Africa where regulated activities are undertaken. The Group s authority to operate as a bank is dependent upon the maintenance of adequate capital resources;
- support its credit rating. A weaker credit rating would increase the Group s cost of funds;
- support its growth and strategic options.

During periods of market dislocation, increasing the Group s capital resources may prove more difficult or costly. Regulators have also recently increased the Group s capital targets and amended the way in which capital targets are calculated and may further do so in future. This would constrain the Group s planned activities and contribute to adverse impacts on the Group s earnings.

The Group s capital management objectives and processes are detailed in the Capital risk management section on page 128.

Operational risk

Operational risk is the risk of direct or indirect losses resulting from human factors, external events, and inadequate or failed internal processes and

systems. Operational risks are inherent in the Group s operations and are typical of any large enterprise. Major sources of operational risk include operational process reliability, IT security, outsourcing of operations, dependence on key suppliers, implementation of strategic change, integration of acquisitions, fraud, human error, customer service quality, regulatory compliance, recruitment, training and retention of staff, and social and environmental impacts.

The Group s operational risk management and measurement methodologies are detailed in the Operational risk management section on page 131.

Financial crime risk

Financial crime risk is a category of operational risk. It arises from the risk that the Group might fail to comply with financial crime legislation and industry laws on anti-money laundering or might suffer losses as a result of internal or external fraud, or might fail to ensure the security of personnel, physical premises and the Group s assets.

The Group s financial crime management and processes are detailed in the Financial crime risk management section on page 134.

Regulatory compliance risk

Regulatory compliance risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial service industry. Non-compliance could lead to fines, public reprimands, damage to reputation, enforced suspension of operations or, in extreme cases, withdrawal of authorisations to operate.

In addition, the Group s businesses and earnings can be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in the United Kingdom, the European Union (EU), the United States, South Africa and elsewhere. All these are subject to change, particularly in the current market environment where recent developments in the global markets have led to an increase in the involvement of various governmental and regulatory authorities in the financial sector and in the operations of financial institutions. In particular, governmental and regulatory authorities in the United Kingdom, the United States and elsewhere are implementing measures to increase regulatory control in their respective banking sectors, including by imposing enhanced capital requirements or by imposing conditions on direct capital injections and funding. Any future regulatory changes may potentially restrict the Group s operations, mandate certain lending activity and impose other compliance costs. It is uncertain how the more rigorous regulatory climate will impact financial institutions, including the Group.

Areas where changes could have an impact include:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy that may significantly influence investor decisions in particular markets in which the Group operates;
- general changes in the regulatory requirements, for example, prudential rules relating to the capital adequacy framework and rules designed to promote financial stability and increase depositor protection;
- changes in competition and pricing environments;
- further developments in the financial reporting environment;
- differentiation amongst financial institutions by governments with respect to the extension of guarantees to customer deposits and the terms attaching to those guarantees; and
- implementation of, or costs related to, local customer or depositor compensation or reimbursement schemes.

Two specific matters that directly impact the Group are the Banking Act 2009 and the Financial Services Compensation Scheme:

Banking Act 2009

On 21st February 2009, the Banking Act 2009 came into force which provides a permanent regime to allow the FSA, the UK Treasury and the Bank of England (the Tripartite Authorities) to resolve failing banks in the UK. The Banking Act aims to balance the need to protect depositors and prevent systemic failure with the potentially adverse consequences that using powers to deal with those events could have on private law rights, and, as a consequence, wider markets and investor confidence.

These powers, which apply regardless of any contractual restrictions, include (a) power to issue share transfer orders pursuant to which there may be transferred to a commercial purchaser or Bank of England entity, all or some of the securities issued by a bank. The share transfer order can extend to a wide range of securities including shares and bonds issued by a UK Bank (including Barclays Bank PLC) or its holding company (Barclays PLC) and warrants for such and (b) the power to transfer all or some of the property, rights and liabilities of the UK bank to a purchaser or Bank of England entity. In certain circumstances encumbrances and trusts can be over-reached. Power also exists to over-ride any default provisions in transactions otherwise affected by these powers. Compensation may be payable in the context of both share transfer orders and property appropriation. In the case of share transfer orders any compensation

will be paid to the person who held the security immediately before the transfer, who may not be the encumbrancer.

The Banking Act also vests power in the Bank of England to over-ride, vary or impose contractual obligations between a UK bank or its holding company and its former group undertakings (as defined in the Banking Act), for reasonable consideration, in order to enable any transferee or successor bank of the UK bank to operate effectively. There is also power for the Treasury to amend the law (save for a provision made by or under the Banking Act) by order for the purpose of enabling it to use the special resolution regime powers effectively, potentially with retrospective effect.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (the FSCS) was created under the Financial Services and Markets Act 2000 and is the UK s statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on authorised UK firms such as Barclays Bank PLC. In the event that the FSCS raises funds from the authorised firms, raises those funds more frequently or significantly increases the levies to be paid by such firms, the

associated costs to the Group may have a material impact on the Group s results of operations and financial condition.

Further details of specific matters that impact the Group are included in the Competition and regulatory matters note to the financial statements on page 246.

Legal risk

The Group is subject to a comprehensive range of legal obligations in all countries in which it operates. As a result, the Group is exposed to many forms of legal risk, which may arise in a number of ways. Primarily:

- the Group s business may not be conducted in accordance with applicable laws around the world;
- contractual obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;
- the intellectual property of the Group (such as its trade names) may not be adequately protected; and
- the Group may be liable for damages to third parties harmed by the conduct of its business.

The Group faces risk where legal proceedings are brought against it. Regardless of whether such claims have merit, the outcome of legal proceedings is inherently uncertain and could result in financial loss.

Risk factors

Defending legal proceedings can be expensive and time-consuming and there is no guarantee that all costs incurred will be recovered even if the Group is successful. Although the Group has processes and controls to manage legal risks, failure to manage these risks could impact the Group adversely, both financially and by reputation.

Further details of the Group s legal proceedings are included in the Legal proceedings note to the financial statements on page 245.

Insurance risk

Insurance risk is the risk that the Group will have to make higher than anticipated payments to settle claims arising from its long-term and short-term insurance businesses.

Further details of the Group s insurance assets and liabilities, including a sensitivity analysis of insurance contract liabilities, are included in the Insurance assets and liabilities note to the financial statements on page 226.

Business risk

The Group devotes substantial management and planning resources to the development of strategic plans for organic growth and identification of possible acquisitions, supported by substantial expenditure to generate growth in customer business. If these strategic plans are not delivered as anticipated, the Group s earnings could grow more slowly or decline. In addition, potential sources of business risk include revenue volatility due to factors such as macroeconomic conditions, inflexible cost structures, uncompetitive products or pricing and structural inefficiencies.

Competition

The global financial services markets in which the Group operates are highly competitive. Innovative competition for corporate, institutional and retail clients and customers comes both from incumbent players and a steady stream of new market entrants, as well as recent consolidation among banking institutions in the United Kingdom, the United States and throughout Europe. The landscape is expected to remain highly competitive in all areas, which could adversely affect the Group s profitability if the Group fails to retain and attract clients and customers.

Tax risk

The Group is subject to the tax laws in all countries in which it operates, including tax laws adopted at an EU level. A number of double taxation agreements entered between two countries also impact on the taxation of the Group. Tax risk is the risk associated with changes in tax law or in the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge. It could also lead to a financial penalty for failure to comply with required tax procedures or other aspects of tax law. If, as a result of a particular tax risk materialising, the tax costs associated with particular transactions are greater than anticipated, it could affect the profitability of those transactions.

The Group takes a responsible and transparent approach to the management and control of its tax affairs and related tax risk:

- tax risks are assessed as part of the Group s formal governance processes and are reviewed by the Executive Committee, Group Finance Director and the Board Risk Committee;
- the tax charge is also reviewed by the Board Audit Committee;
- the tax risks of proposed transactions or new areas of business are fully considered before proceeding;

- the Group takes appropriate advice from reputable professional firms;
- the Group employs high-quality tax professionals and provides ongoing technical training;
- the tax professionals understand and work closely with the different areas of the business;
- the Group uses effective, well-documented and controlled processes to ensure compliance with tax disclosure and filing obligations; and
- where disputes arise with tax authorities with regard to the interpretation and application of tax law, the Group is committed to addressing the matter promptly and resolving the matter with the tax authority in an open and constructive manner.

Risk management

Barclays approach to risk management

This risk section outlines Barclays approach to risk management, as exemplified by the application of the Group s Principal Risks Policy, determination of its Risk Appetite and governance around its Risk Methodologies, which cover its processes, measurement techniques and controls. In addition, we set out summary information and disclosure on our portfolios and positions.

Barclays approach to risk management involves a number of fundamental elements that drive our processes across the Group:

The Principal Risks Policy covers the Group s main risk types, assigning responsibility for the management of specific risks, and setting out the requirements for control frameworks for all of the risk types. The individual control frameworks are reinforced by a robust system of review and challenge, and a governance process of aggregation and broad review by businesses and risk across the Group (page 78).

The Group sRisk Appetite sets out the level of risk that the Board is willing to take in pursuit of its business objectives. This is expressed as the Group s appetite for earnings volatility across all businesses from credit, market, and operational risk. It is calibrated against our broad financial targets, including income and impairment targets, dividend coverage and capital levels. It is prepared each year as part of the Group s Medium-Term Planning process, and combines a top-down view of the Group s risk capacity with a bottom-up view of the risk profile requested and recommended by each business. This entails making business plan adjustments as necessary to ensure that our Medium-Term Plan creates a risk profile that meets our Risk Appetite (page 78).

Barclays Risk Methodologies include systems that enable the Group to measure, aggregate and report risk for internal and regulatory purposes. As an example, our credit grading models produce Internal Ratings through internally derived estimates of default probabilities. These measurements are used by management in an extensive range of decisions, from credit grading, pricing and approval to portfolio management, economic capital allocation and capital adequacy processes (page 79).

Risk management is a fundamental part of Barclays business activity and an essential component of its planning process. To keep risk management at the centre of the executive agenda, it is embedded in the everyday management of the business.

Barclays ensures that it has the functional capacity to manage the risk in new and existing businesses. At a strategic level, our risk management objectives are:

- To identify the Group s material risks and ensure that business profile and plans are consistent with risk appetite.
- To optimise risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures.
- To ensure that business growth plans are properly supported by effective risk infrastructure.
- To manage risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions.
- To help executives improve the control and co-ordination of risk taking across the business.

In pursuit of these objectives, Group Risk breaks down risk management into five discrete processes: direct, assess, control, report, and manage/challenge (see panel below).

Process	Activity
Direct	Understand the principal risks to achieving Group strategy. Establish Risk Appetite. Establish and communicate the risk management framework including responsibilities, authorities and key controls.
Assess	Establish the process for identifying and analysing business-level risks. Agree and implement measurement and reporting standards and methodologies.
Control	Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements. Monitor the operation of the controls and adherence to risk direction and limits. Provide early warning of control or appetite breaches. Ensure that risk management practices and conditions are appropriate for the business environment.
Report	Interpret and report on risk exposures, concentrations and risk-taking outcomes. Interpret and report on sensitivities and Key Risk Indicators. Communicate with external parties.
Manage and Challenge	Review and challenge all aspects of the Group s risk profile. Assess new risk-return opportunities. Advise on optimising the Group s risk profile. Review and challenge risk management practices.

Barclays approach to risk management

Organisation and structure

Responsibility for risk management resides at all levels within the Group, from the Executive down through the organisation to each business manager and risk specialist. Barclays distributes these responsibilities so that risk/return decisions are taken at the most appropriate level; as close as possible to the business, and subject to robust and effective review and challenge.

Every business manager is accountable for managing risk in his or her business area; they must understand and control the key risks inherent in the business undertaken. Each business area also employs risk specialists to provide an independent control function and to support the development of a strong risk management environment. This functional approach to risk management is built on formal control processes that rely on individual responsibility and independent oversight, as well as challenge through peer reviews.

The Board approves Risk Appetite and the Board Risk Committee monitors the Group s risk profile against this agreed appetite. Business Heads are responsible for the identification and management of risk in their businesses. The Group Risk Director, under delegated authority from the Group Chief Executive and Group Finance Director, has responsibility for ensuring effective risk management and control.

The Committees shown below receive regular and comprehensive reports. The Board Risk Committee receives quarterly reports on the Group s risk profile and forward risk trends (for further information on the membership and activities of the Board Risk Committee, see page 166). The Board Audit Committee receives quarterly reports on control issues of significance and half-yearly impairment allowances and regulatory reports. See page 163 for additional details on the membership and activities of the Board Audit Committee. Both Board and Audit Committees also receive reports dealing in more depth with specific issues relevant at the time. The proceedings of both Committees are reported to the full Board, which also receives a concise quarterly risk report. Internal Audit supports both Committees by attendance and/or the provision of quarterly reports resulting from its work on governance, risk and control issues of significance. The Board Audit Committee reviews and approves Internal Audit s plans and resources, and evaluates the effectiveness of Internal Audit.

An assessment by external advisers is also carried out periodically.

In addition to the Committees shown in the chart, there is a Brand and Reputation Committee reviewing emerging issues with potentially significant reputational impact.

Governance structure at Group level

The Group Risk Director has overall day to day accountability for risk management. Reporting to the Group Risk Director are Group Risk Heads for Retail Credit Risk, Wholesale Credit Risk, Market Risk, Operational Risk, Financial Crime Risk and Capital Demand. Along with their teams, they are responsible for establishing a risk control framework and risk oversight at Group level. This core team liaises with each business as part of the monitoring and management processes.

Each business has an embedded risk management team reporting to a Business Risk Director who reports to the Group Risk Director. The risk management teams assist Group Risk in the formulation of Group Risk policy and its implementation across the businesses.

Business risk teams are responsible for assisting Business Heads in the identification and management of their business risk profiles and for implementing appropriate controls. The functional coverage of risk responsibilities is illustrated in the diagram below.

Internal Audit is responsible for the independent review of risk management and the control environment.

To support risk taking, Barclays has continued to strengthen the independent and specialised risk teams in each of its businesses, supported by matching teams at Group level, acting in both a consultancy and oversight capacity. As a prerequisite to business growth plans, it has made the recruitment, development and retention of risk professionals a priority.

Barclays approach to risk management

Key elements

Principal Risks

The Board is responsible for the Group Internal Control and Assurance Framework (GICAF). As part of the GICAF, it approves the Principal Risks Policy, which sets out responsibilities for the management of the Group s most significant risk exposures. The Board oversees the operating effectiveness of the Principal Risks Policy through the regular review of reports on the Group s material risk exposures and controls.

The Group s risk categorisation comprises 17 risk categories (Level 1), 13 of which are known as Principal Risks. Each Principal Risk is owned by a senior individual at the Group level, who liaises with Principal Risk owners within Business Units and Group Centre Functions. The 17 risk categories are shown in the panel below.

Each Group Principal Risk Owner (GPRO) is responsible for setting minimum control requirements for their risk and for overseeing the risk and control performance across the Group. Group control requirements (e.g. Group Policies/Processes/Committee oversight) for each of these risks are defined, in consultation with Business Units, and communicated and maintained by the GPRO.

Implementation of the control requirements for each Principal Risk provides each Business Unit or Group Centre Function with the foundation of its system of internal control for that particular risk. This will usually be built upon in more detail, according to the circumstances of each Business Unit, to provide a complete and appropriate system of internal control.

The specific controls for individual Principal Risks are supplemented by generic risk management requirements. These requirements are articulated as the Group s Operational Risk Management Framework (see page 130) and include policies on:

- Internal Risk Event Identification and Reporting
- Risk and Control Assessment
- Key Indicators
- Key Risk Scenarios

Business Unit and Group Centre Function Heads are responsible for maintaining ongoing assurance that the controls they have put in place to manage the risks to their business objectives are operating effectively. They are required to undertake a formal six-monthly review of assurance information. These reviews support the regulatory requirement for the Group to make a statement about its system of internal control (the Turnbull statement), in the Annual Report and Accounts.

Risk Appetite

Risk Appetite is the level of risk the Board of Barclays chooses to take in pursuit of its strategic objectives, recognising a range of possible outcomes as business plans are implemented. Barclays framework, approved by the Board Risk Committee, combines a top-down view of its capacity to take risk with a bottom-up view of the business risk profile requested and recommended by each business area.

To determine this acceptable level of risk, management estimates the potential earnings volatility from different businesses under various scenarios.

This annual setting of Risk Appetite considers the Bank s ability to support business growth, desired dividend payout levels and capital ratio targets. If the projections entail too high a level of risk, management will challenge each area to find new ways to rebalance the business mix to incur less

risk on a diversified basis. Performance against Risk Appetite is measured and reported to the Executive and Board regularly throughout the year. Barclays believes that this framework enables it to:

- Improve risk and return characteristics across the business
- Meet growth targets within an overall risk appetite and protect the Group s performance
- Improve management confidence and debate regarding our risk profile
- Improve executive management control and co-ordination of risk-taking across businesses
- Identify unused risk capacity, and thus highlight profitable opportunities.

The Risk Appetite framework considers credit, market and operational risk and is applied using two perspectives: financial volatility and mandate and scale .

Financial Volatility is the level of potential deviation from expected financial performance that Barclays is prepared to sustain at relevant points on the risk profile. It is established with reference to the strategic objectives and to the business plans of the Group, including the achievement of annual financial targets, payment of dividends, funding of capital growth and maintenance of acceptable capital ratios and our credit rating. The portfolio is analysed in this way at four representative levels:

- Expected performance (including the average credit losses based on measurements over many years)
- A level of loss that corresponds to moderate increases in market, credit or operational risk from expected levels
- A more severe level of loss which is much less likely
- An extreme but highly improbable level of loss which is used to determine the Group s economic capital.

These potentially larger but increasingly less likely levels of loss are illustrated in the Risk Appetite concepts chart below. The Mandate and Scale framework is a formal review and control of our business activities to ensure that they are within our mandate (i.e. aligned to the expectations of external stakeholders) and are of an appropriate scale (relative to the risk and reward of the underlying activities). Appropriate assurance is achieved by using limits and triggers to avoid concentrations and operational risks which could lead to unexpected losses of a scale that would result in a disproportionate fall in Barclays market capitalisation.

Taken as a whole, the Risk Appetite framework provides a basis for the allocation of risk capacity to each business. Since the level of loss at any given probability is dependent on the portfolio of exposures in each business, the statistical measurement for each key risk category gives the Group clearer sight and better control of risk-taking throughout the enterprise.

Risk Methodologies

Fundamental to the delivery of the Group s risk management objectives are a series of risk methodologies that allow it to measure, model, price, stress, aggregate, report and mitigate the risks that arise from its activities. Many of the most important processes relate to the internal ratings used in granting credit and are discussed separately on page 82. The specific methodologies used to manage market risk, liquidity risk, capital risk and operational risk are also discussed in their corresponding sections. At a more general level, the Group s approach to risk management can be illustrated through its use of stress testing and the controls around model governance.

Stress testing

As part of the annual stress testing process, Barclays estimates the impact of a severe economic downturn on the projected demand and supply of capital. This process enables the Group to assess whether it could meet its minimum regulatory capital requirements throughout a severe recession. The Risk Appetite numbers are validated by estimating the Group sensitivity to adverse changes in the business environment and to include operational events that impact the Group as a whole using stress testing and scenario analysis. For instance, changes in certain macroeconomic variables represent environmental stresses which may reveal systemic credit and market risk sensitivities in our retail and wholesale portfolios.

The recession scenarios considered incorporate changes in macroeconomic variables, including:

- Weaker GDP, employment or property prices
- Lower equity prices
- Interest rate curve shifts
- Commodity price movements

Such Group-wide stress tests allow senior management to gain a better understanding of how portfolios are likely to react to changing economic and geopolitical conditions and how the Group can best prepare for and react to them. The stress test simulates the balance sheet and profit and loss effects of stresses across the Group, investigating the impact on profits and the ability to maintain appropriate capital ratios. Insights gained are fully integrated into the senior management process and the Risk Appetite framework. This process of analysis and senior management oversight also provides the basis for fulfilling the stress testing requirements of Basel II.

Group-wide stress testing is only one of a number of stress test analyses that are performed as part of the wider risk management process. Specific stress test analysis is used across all risk types to gain a better understanding of the risk profile and the potential effects of changes in external factors. These stress tests are performed at a range of different levels, from analysis covering specific stresses on individual sub-portfolios (e.g. the impact of higher unemployment on the US cards portfolio) to regularly assessed stress scenarios (such as the effect of a sudden rise in global interest rates on Barclays Capital s market exposures).

Model Governance

Barclays has a large number of models in place across the Group, covering all risk types. To minimise the risk of loss through model failure, a Group Model Risk Policy (GMRP) has been developed. This has been extensively reviewed and enhanced during the course of 2008.

The GMRP helps reduce the potential for model failure by setting minimum standards around the model development and implementation process. The Policy also sets the Group governance processes for all

models, which allows model risk to be monitored, and seeks to identify and escalate any potential problems at an early stage.

To help ensure that sufficient management time is spent on the more material models, each model is provided with a materiality rating. GMRP defines the materiality ranges for all model types. The materiality ranges are based on an assessment of the impact to the Group in the event of a model error. The materiality affects the approval and reporting level for each model, with the most material models being approved by the Executive Models Committee, a technical sub-committee of Group Executive Committee. Although final level of model sign-off will vary, depending on model

materiality, the standards of model build, implementation, monitoring and maintenance do not change with the materiality level.

Documentation must be sufficiently detailed, to allow an expert to understand all appropriate aspects of model development. It must include a description of the data used for model development, the methodology used (and the rationale for choosing such a methodology), a description of any assumptions made, as well as details of where the model works well and areas that are known model weaknesses.

All models are subject to a validation and independent review process before the model can be signed-off for implementation. The model validation exercise must demonstrate that the model is fit for purpose and provides accurate estimates. The independent review process will also ensure that all aspects of the model development process have been performed in a suitable manner.

The initial sign-off process ensures that the model is technically fit for purpose as well as ensuring that the model satisfies the business requirements and all the relevant regulatory requirements. As detailed above, the process for model sign-off is based on materiality, with all of a business unit s models at least initially being approved in business-led committees, and Group involvement increasing as the models become more material.

Once implemented, all models within the Group are subject to an annual validation, to ensure that they are performing as expected, and that assumptions used in model development are still appropriate. In line with initial sign-off requirements, annual validations are also formally reviewed at the appropriate technical committee.

In addition to annual validation, models are subject to quarterly performance monitoring. Model performance monitoring ensures that deficiencies are identified early, and that remedial action can be taken before the deficiency becomes serious enough to affect the decision-making process. As part of this process, model owners set performance triggers and define appropriate actions for their models in the event of breaches.

Externally developed models are subject to the same governance standards as internal models, and must be initially approved for use following the validation and independent review process. External models are also subject to the same standards for ongoing monitoring and annual validation requirements.

Within Barclays Capital, where models are used to value positions within the trading book the positions are subject to regular independent price testing which covers all trading positions. Prices are compared to direct external market data where possible. When this is not possible, more analytic techniques are used, such as industry consensus pricing services. These services enable Barclays to anonymously compare structured products and model-input parameters with those of other banks engaged in the trading of the same financial products. The conclusions and any exceptions to this exercise are communicated to senior levels of business and infrastructure management.

Credit risk management

Credit risk is the risk of suffering financial loss should any of the Group s customers, clients or market counterparties fail to fulfil their contractual obligations to the Group.

The granting of credit is one of the Group s major sources of income and, as its most significant risk, the Group dedicates considerable resources to controlling it. The importance of credit risk is illustrated by noting that almost two-thirds of risk-based economic capital is allocated to credit risk. The credit risk that the Group faces arises mainly from wholesale and retail loans and advances.

Barclays is also exposed to other credit risks arising from its trading activities, including debt securities, derivatives, settlement balances with market counterparties and reverse repurchase loans.

In managing credit risk, the Group applies the five-step risk management process and internal control framework. Specific credit risk management objectives are:

- To gain a clear and accurate understanding and assessment of credit risk across the business, from the level of individual facilities up to the total portfolio.
- To control and plan the taking of credit risk, ensuring it is coherently priced across the business and avoiding undesirable concentrations.
- To support strategic growth and decision-making based on sound credit risk management principles and a proactive approach to identifying and measuring new risks.
- To ensure a robust framework for the creation, use and ongoing monitoring of the Group s credit risk measurement models.
- To ensure that our balance sheet reflects the value of our assets in accordance with accounting principles.

In the review of Barclays credit risk management that follows, we first explain how the Group meets its credit risk management objectives through its organisation, structure and governance, its measurement, reporting and system of internal ratings and its mechanisms for credit risk mitigation.

We then provide a summary of the Group s total assets, including the asset types which give rise to credit risk and counterparty credit risk, namely: loans and advances, debt securities and derivatives.

On pages 89 to 102 , we set out a detailed analysis of the Group s loans and advances across a number of asset classes and businesses referencing significant portfolios and including summary measures of asset quality.

We next provide disclosures and analyses of the credit risk profiles of these asset categories, beginning with Barclays Capital s credit market exposures by asset class, covering current exposures, losses during 2008, sales and paydowns, foreign exchange movements and, where appropriate, details of collateral held, geographic spread, vintage and credit quality. These are given on pages 106 to 118.

Finally, additional analysis of debt securities and derivatives can be found on pages 103 and 104 to 105.

Risk management

Credit risk management

Organisation and structure

Barclays has structured the responsibilities of credit risk management so that decisions are taken as close as possible to the business, whilst ensuring robust review and challenge of performance, risk infrastructure and strategic plans.

The credit risk management teams in each business are accountable to the Business Risk Directors in those businesses who, in turn, report to the heads of their businesses and also to the Risk Director. These credit risk management teams assist Group Risk in the formulation of Group Risk policy and its implementation across the businesses. Examples include:

- maximum exposure guidelines to limit the exposures to an individual customer or counterparty
- country risk policies to specify risk appetite by country and avoid excessive concentration of credit risk in individual countries
- policies to limit lending to certain industrial sectors
- underwriting criteria for personal loans and maximum loan-to-value ratios for home loans

Within Group Risk, the Credit Risk function provides Group-wide direction of credit risk-taking. This functional team manages the resolution of all significant credit policy issues and runs the Credit Committee, which approves major credit decisions.

The principal Committees that review credit risk management, formulate overall Group credit policy and resolve all significant credit policy issues are the Group Wholesale Credit Risk Management Committee, the Group Retail Credit Risk Management Committee, the Risk Oversight

Committee and the Board Risk Committee. The Board Audit Committee also reviews the impairment allowance as part of financial reporting.

The Group Credit Risk Impairment Committee (GCRIC), on a semi-annual basis, obtains assurance on behalf of the Group that all businesses are recognising impairment in their portfolios accurately and promptly in their recommendations and in accordance with policy, accounting standards and established governance.

GCRIC exercises the authority of the Group Risk Director, as delegated by the Group Chief Executive, and is chaired by Barclays Credit Risk Director. GCRIC reviews the movements to impairment in the businesses, including those already agreed at Credit Committee, as well as Potential Credit Risk Loans, loan loss rates, asset quality metrics and Risk Tendency.

These committees are supported by a number of Group policies including:

- Group Retail and Wholesale Impairment and Provisioning Policies
- Group Retail and Wholesale Expected Loss Policies
- Group Model Policy

GCRIC makes twice-yearly recommendations to the Board Audit Committee on the adequacy of Group impairment allowances. Impairment allowances are reviewed relative to the risk in the portfolio, business and economic trends, current policies and methodologies, and our position against peer banks.

GCRIC has delegated the detailed review of loan impairment in the businesses to the Retail and Wholesale Credit Risk Management Committees.

Credit risk management

Measurement, reporting and internal ratings

The principal objective of credit risk measurement is to produce the most accurate possible quantitative assessment of the credit risk to which the Group is exposed, from the level of individual facilities up to the total portfolio. The key building blocks in this quantitative assessment are:

- Probability of default (PD)
- Exposure in the event of default (EAD)
- Loss given default (LGD)

Barclays first began to use internal estimates of PD in its main businesses in the 1990s. Internally derived estimates for PD, EAD and LGD have since been used in our major risk decision-making processes, enabling the application of coherent risk measurement across all credit exposures, retail and wholesale.

With the advent of the Basel II accord on banking, Barclays has been given permission to use internal rating models as an input to its regulatory capital calculations. In preparation, Barclays spent considerable time developing and upgrading a number of such models across the Group, moving towards compliance with the Basel II advanced internal ratings based approach. As part of this process, all Basel credit risk models have been assessed against the Basel II minimum requirements prior to model sign-off to ensure that they are fit to be used for regulatory purposes.

Applications of internal ratings

The three components described above the PD, EAD and LGD are building blocks used in a variety of applications that measure credit risk across the entire portfolio. These parameters can be calculated incorporating different aspects of the credit cycle into the estimates:

- PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average 12 month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next 12 months.
- LGD and EAD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual (BAU) measures, reflecting best modelled behaviour under actual conditions.

These parameters, in suitable combination, are used in a wide range of credit risk measurement and management and as our understanding and experience have developed, we have extended the use and sophistication of internal ratings into the following:

- Credit Approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are frequently used as decision-making tools. In wholesale and some retail mortgage portfolios, PD models are used to direct applications to different credit sanctioning levels, so that credit risks are reviewed at appropriate levels.
- Credit Grading: originally introduced in the early 1990s to provide a common measure of risk across the Group using an eight point rating scale; wholesale credit grading now employs a 21 point scale of default probabilities.

Risk-Reward and Pricing: PD, EAD and LGD metrics are used to assess profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.

Risk Appetite: measures of expected loss and the potential volatility of loss are used in the Group s Risk Appetite framework (see page 78).

IAS 39: many of our collective impairment estimates incorporate the use of our PD and LGD models, adjusted as necessary.

Collections and Recoveries: model outputs are frequently used to segment portfolios allowing for suitably prioritised collections and recoveries strategies in retail portfolios.

Economic capital (EC) allocation: most EC calculations use the same PD and EAD inputs as the regulatory capital (RC) process. The process also uses the same underlying LGD model outputs as the RC calculation, but does not incorporate the same economic downturn adjustment used in RC calculations.

Risk management information: Group Risk and the business units generate risk reports to inform senior management on issues such as the business performance, Risk Appetite and consumption of EC.

Calculation of internal ratings

To calculate probability of default (PD), Barclays assesses the credit quality of borrowers and other counterparties and assigns them an internal risk rating. Multiple rating methodologies may be used to inform the rating decision on individual large credits, such as internal and external models, rating agency ratings, and for wholesale assets market information such as credit spreads. For smaller credits, a single source may suffice such as the result from an internal rating model. Barclays recognises the need for

two different expressions of PD depending on the purpose for which it is used. For the purposes of calculating regulatory and economic capital, long-run average through-the-cycle PDs are required. However, for the purposes of pricing, PDs should represent the best estimate of probability of default, typically in the next 12 months, dependent on the current position in the credit cycle. Hence, point-in-time PDs are also required.

Each PD model outputs a point-in-time (PIT), through-the-cycle (TTC) or a hybrid, e.g. a 50:50 blend, default estimate. Conversion techniques appropriate to the portfolio are then applied to calculate both PIT and TTC estimates. Industry and location of the counterparty and an understanding of the current and long-term credit conditions are considered in deriving the appropriate conversion. Two ratings are therefore recorded for each client, the PIT and the TTC estimates.

Barclays internal rating system also differentiates between wholesale and retail customers. For wholesale portfolios, the rating system is constructed to ensure that each client receives the same rating independent of the part of the business with which they are dealing. To achieve this, a model hierarchy is adopted which requires users to adopt a specific approach to rating each counterparty depending upon the nature of the business and its location.

A range of methods is approved for estimating wholesale counterparty PDs. These include bespoke grading models developed within the Barclays Group (Internal Models), vendor models such as MKMV Credit Edge and RiskCalc, and a conversion of external alphabet ratings from either S&P, Moody s or Fitch. Retail models, especially those used for capital purposes, are almost exclusively built internally using Barclays data, although in some cases bureau models may be used in conjunction with these models. In addition, in some low data/low default environments external developments may be utilised for decision-making purposes.

A key element of the Barclays Wholesale framework is the probability of default distribution, which maps PDs into internal grades both for PIT (default grades) and TTC (TTC band) purposes. This has been developed to record differences in the probability of default risk at meaningful levels throughout the risk range. In contrast to wholesale businesses, retail areas do not bucket exposures into generic grades for account management purposes (although they may be used for reporting purposes). Instead, accounts are managed either at a granular level or based on bespoke segmentations.

Exposure at default (EAD) represents the expected level of usage of the credit facility when default occurs. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal,

Barclays probability of default grades (wholesale)

DG/TTC	Default Probability		
Band	>=Min	Mid	<Max
1	0.00%	0.010%	0.02%
2	0.02%	0.025%	0.03%
3	0.03%	0.040%	0.05%
4	0.05%	0.075%	0.10%
5	0.10%	0.125%	0.15%
6	0.15%	0.175%	0.20%
7	0.20%	0.225%	0.25%
8	0.25%	0.275%	0.30%
9	0.30%	0.350%	0.40%
10	0.40%	0.450%	0.50%
11	0.50%	0.550%	0.60%
12	0.60%	0.900%	1.20%
13	1.20%	1.375%	1.55%
14	1.55%	1.850%	2.15%
15	2.15%	2.600%	3.05%
16	3.05%	3.750%	4.45%
17	4.45%	5.400%	6.35%
18	6.35%	7.500%	8.65%
19	8.65%	10.000%	11.35%
20	11.35%	15.000%	18.65%
21	18.65%	30.000%	100.00%

so that exposure is typically less than the approved loan limit. When the Group evaluates loans, it takes exposure at default into consideration, using its extensive historical experience. It recognises that customers may make heavier than average usage of their facilities as they approach

default. The lower bound of EAD is the actual outstanding balance at calculation of EAD. For derivative instruments, exposure in the event of default is the estimated cost of replacing contracts with a positive value should counterparties fail to perform their obligations.

When a customer defaults, some part of the amount outstanding on the loan is usually recovered. The part that is not recovered, the actual loss, together with the economic costs associated with the recovery process, comprise the loss given default (LGD), which is expressed as a percentage of EAD. Using historical information, the Group estimates how much is likely to be lost, on average, for various types of loans in the event of default.

The level of LGD depends principally on: the type of collateral (if any); the seniority or subordination of the exposure; the industry in which the customer operates (if a business); the length of time taken for the recovery process and the timing of all associated cash flows; and the jurisdiction applicable and work-out expenses. The outcome is also dependent on economic conditions that may determine, for example, the prices that can be realised for assets, whether a business can readily be refinanced or the availability of a repayment source for personal customers.

The ratings process

The term   internal ratings   usually refers to internally calculated estimates of PD. These ratings are combined with EAD and LGD in the range of applications described previously. The   ratings process   refers to the use of PD, EAD and LGD across the Group. In Barclays, the rating process is defined by each business. For central government and banks, institutions and corporate customers many of the models used in the rating process are shared across businesses as the models are customer specific. For retail exposures, the ratings models are usually unique to the business and product type e.g. mortgages, credit cards, and consumer loans.

Wholesale Approaches

A bespoke model has been built for PD and LGD for Sovereign ratings. For Sovereigns where there is no externally available rating, we use an internally developed PD scorecard. The scorecard has been developed using historic data on Sovereigns from an external data provider covering a wide range of qualitative and quantitative information. Our LGD model is based on resolved recoveries in the public domain, with a significant element of conservatism added to compensate for the small sample size.

Credit risk management

Measurement, reporting and internal ratings

To construct ratings for institutions, corporates, specialised lending and purchased corporate receivables and equity exposures, we use external models, rating agencies and internally constructed models. The applicability of each of these approaches to our customers has been validated by us to internal rating standards. The data used in validating these primary indicators are representative of the population of the bank s actual obligors and exposures and its long-term experience.

Internally built PD models are also widely used. We employ a range of methods in the construction of these models. The basic types of PD modelling approaches used are:

- Structural
- Expert lender
- Statistical

Structural models incorporate in their specification the elements of the industry-accepted Merton framework to identify the distance to default for a counterparty. This relies upon the modeller having access to specific time series data or data proxies for the portfolio. Data samples used to build and validate these models are typically constructed by adding together data sets from internal default observations with comparable externally obtained data sets from commercial providers such as rating agencies and industry gathering consortia.

Expert lender models are used for parts of the portfolio where the risk drivers are specific to a particular counterparty, but where there is insufficient data to support the construction of a statistical model. These models utilise the knowledge of credit experts that have in depth experience of the specific customer type being modelled.

For any of the portfolios where we have a low number of default observations we adopt specific rules to ensure that the calibration of the model meets the Basel II and FSA criteria for conservatism. We have developed our own internal policy which describes specific criteria for the use of parametric and non-parametric low default portfolio calibration techniques.

Statistical models such as behavioural and application scorecards are used for our high volume portfolios such as Small/Medium Enterprises (SME). The model builds typically incorporate the use of large amounts of internal data, combined with supplemental data from external data suppliers. Where external data is sourced to validate or enhance internally-held data as part of the risk assessment process or to support model development and BAU operation, a similar approach is adopted towards ensuring data quality to that applied to the management of internal data. This entails adherence to the Group s procurement and supplier management process, including the agreement of specifications and service level agreements.

In wholesale portfolios the main approaches to calculate LGD aim to establish the affects of drivers (including industry, collateral coverage, recovery periods, seniority and costs) by looking at Barclays historical experience, supplemented with other external information where necessary. Estimates built using historical information are reviewed to establish whether they can be expected to be representative of future loss rates, and adjusted if necessary.

In a similar fashion, wholesale EAD models estimate the potential utilisation of headroom based on historical information also considering the future outlook of client behaviour.

Typically, modellers do not manipulate external data before using it as input to the model estimation or validation procedure. Changes required in the estimation and validation process are documented in the model build papers.

For all the above asset classes we use the Basel II definition of default, utilising the 90 day past due criteria as the final trigger of default.

Derivative counterparty credit risk measurement

The magnitude of trading exposure is determined by considering the current mark to market of the contract, the historic volatility of the underlying asset and the time to maturity. This allows calculation of a credit equivalent exposure (CEE) for such exposures using a stochastic method and a 98% confidence level.

Retail Approaches

Our retail banking operations have long and extensive experience of using credit models in assessing and managing risk in their businesses and as a result models play an integral role in customer approval and management processes.

Models used include PD models, mostly in the form of application and behavioural scorecards, as well as LGD and EAD models.

Application scorecards are derived from the historically observed performance of new clients. They are built using customer demographic and financial information, supplemented by credit bureau information where available. Through statistical techniques, the relationship between these candidate variables and the default marker is quantified to produce output scores reflecting a PD. These scores are used primarily for new customer decisioning but are, in some cases, also used to allocate PDs to new customers for the purposes of capital calculation.

Behavioural scorecards are derived from the historically observed performance of existing clients as well as being supplemented by the same data as is used for application scoring, including the use of bureau data. The techniques used to derive the output are the same as for application scoring. The output scores are used for existing customer management activities as well as for allocating PDs to existing customers for the purposes of capital calculation.

It is Barclays philosophy to embed Basel II models as extensively as possible in the portfolio management process. This is an ongoing initiative and we expect greater convergence over time. However, in some cases there are sound business reasons for having different models for capital allocations and internal processes.

EAD models within retail portfolios are split into two main methodological categories. The less complex models derive product level credit conversion factors (CCFs) from historical balance migrations; these are frequently further segmented at a delinquency bucket level. The most sophisticated EAD models are behavioural based, determining customer level CCFs from characteristics of the individual facility.

Retail LGD models are built using bespoke methods chosen to best model the observed recovery process. In a number of secured portfolios, structural models are often used which parameterise the LGD drivers giving models which can easily be updated to reflect current market trends. Models based on historical cash collected curves are often utilised in portfolios where recoveries are not based on the recovery of a single source of collateral. Finally, in some instances regression techniques are used to generate predicted LGDs based on account characteristics. In all instances bespoke country level factors are derived to discount recovery flows to the point of default. For capital calculations, customised economic downturn adjustments are made to adjust losses to stressed conditions.

Most retail models within Barclays are built in-house, although occasionally external consultants will be contracted to build models on behalf of the businesses. Whilst most models are statistically or empirically derived, some expert lender models (similar to those described above in the wholesale context) are used, particularly where data limitations preclude a more sophisticated approach.

Where models are used in the calculation of regulatory capital, the definition of default is in line with the regulatory definition of default requirements i.e. for UK portfolios the default definition is 180 days past due whilst international regulators may have different rules. In some cases, for models not used in regulatory capital calculations, in order to maximise model suitability, different default definitions are used. However, in all cases EAD and LGD models are appropriately aligned.

The control mechanisms for the rating system

Each of the business risk teams is responsible for the design, oversight and performance of the individual credit rating models PD, LGD and EAD that comprise the credit rating system for a particular customer within each asset class. Group-wide standards in each of these areas are set by Group Risk and are governed through a series of committees with responsibility for oversight, modelling and credit measurement methodologies.

Through their day-to-day activities, key senior management in Group Credit Risk, the businesses and the business risk teams have a good understanding of the operation and design of the rating systems used.

For example:

- The respective Business Risk Heads or equivalents are responsible for supplying a robust rating system.
- The Group Risk Director, Credit Risk Director and Wholesale and Retail Credit Risk Directors are required to understand the operation and design of the rating system used to assess and manage credit risk in order to carry out their responsibilities effectively. This extends to the Business CEOs, Business Risk Directors and the Commercial/ Managing Directors or equivalent.

In addition, Group Model Risk Policy requires that all models be validated as part of the model build (see page 79). This is an iterative process that is carried out by the model owner. Additionally, a formal independent review is carried out after each model is built to check that it is robust, meets all internal and external standards and is documented appropriately. These reviews must be documented and conducted by personnel who are independent of those involved in the model-building process. The results of the review are required to be signed off by an appropriate authority.

In addition to the independent review, post implementation and annual reviews take place for each model. These reviews are designed to ensure compliance with policy requirements such as:

- integration of models into the business process

- compliance with the model risk policy

- continuation of a robust governance process around model data inputs and use of outputs

Model performance is monitored regularly; frequency of monitoring is monthly for those models that are applicable to higher volume or volatile portfolios, and quarterly for lower volume or less volatile portfolios. Model monitoring includes coverage of the following characteristics: utility, stability, efficiency, accuracy, portfolio and data.

Model owners set performance ranges and define appropriate actions for their models. As part of the regular monitoring, the performance of the models is compared with these operational ranges. If breaches occur, the model owner reports these to the approval body appropriate for the materiality of the model. The model approver is responsible for ensuring completion of the defined action, which may ultimately be a complete rebuild of the model.

Credit risk management

Credit risk mitigation

The Group uses a wide variety of techniques to reduce credit risk on its lending. The most basic of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. In addition, the Group commonly obtains security for the funds advanced, such as in the case of a retail or commercial mortgage, a reverse repurchase agreement, or a commercial loan with a floating charge over book debts and inventories. The Group ensures that the collateral held is sufficiently liquid, legally effective, enforceable and regularly valued.

Various forms of collateral are held and commonly include: cash in major currencies; fixed income products including government bonds; letters of credit; property, including residential and commercial; and other fixed assets.

The Group actively manages its credit exposures and when weaknesses in exposures are detected either in individual exposures or in groups of exposures action is taken to mitigate the risks. These include steps to reduce the amounts outstanding (in discussion with the customers, clients or counterparties, if appropriate), the use of credit derivatives and, sometimes, the sale of the loan assets.

The Group also uses various forms of specialised legal agreements to reduce risk, including netting agreements which permit it to offset positive and negative balances with customers in certain circumstances to minimise the exposure at default, as well as financial guarantees, and the use of covenants in commercial lending agreements.

Barclays manages the diversification of its portfolio to avoid unwanted credit risk concentrations. A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Credit risk mitigation to address concentrations takes several dimensions. Within wholesale credit risk, maximum exposure guidelines are in place relating to the exposures to any individual counterparty. These permit higher exposures to borrowers with higher ratings. They also distinguish between types of counterparty, for example, between sovereign governments, banks and corporations. Excesses to maximum exposure guidelines are considered individually at the time of credit sanctioning, are reviewed regularly, and are reported to the Risk Oversight Committee and the Board Risk Committee.

Wrong way risk in a trading exposure arises when there is significant correlation between the underlying asset and the counterparty which in the event of default would lead to a significant mark to market loss.

When assessing the credit exposure of a wrong way trade, analysts take into account the correlation between the counterparty and the underlying asset as part of the sanctioning process. Adjustments to the calculated CEE are considered on a case by case basis.

The Risk Oversight Committee has delegated and apportioned responsibility for risk management to the Retail and Wholesale Credit Risk Management Committees. The Retail Credit Risk Management Committee (RCRMC) oversees exposures, which comprise unsecured personal lending (including small businesses), mortgages and credit cards. The RCRMC monitors the risk profile and performance of the retail

portfolios by receipt of key risk measures and indicators at an individual portfolio level, ensuring mitigating actions taken to address performance are appropriate and timely. Metrics reviewed will consider portfolio composition at both an overall stock and new flow level.

The Wholesale Credit Risk Management Committee (WCRMC) oversees wholesale exposures, comprising lending to businesses, banks, other financial institutions and sovereigns. The WCRMC monitors exposure by country, industry sector, individual large exposures and exposures to sub-investment grade countries.

Country concentrations are addressed through the country risk policy and utilisation of country limits which specify Risk Appetite by country and avoid excessive concentrations of credits in individual countries. Country risk grades are assigned to all countries where the Group has, or is likely to have, exposure and are reviewed regularly to ensure they remain appropriate. Country grades, which are derived from long-term sovereign foreign currency ratings, range from 1 (lowest probability of default) to 21 (highest probability of default). A ceiling is applied where a country is graded 12 or worse so that the counterparty cannot normally receive a higher risk grading than the country, unless some form of protection is available in the event of a cross-border event, such as a significant portion of a counterparty s assets or income being held or generated in hard currency.

To manage exposure to country risk, the Group uses two country limits: the Prudential Guideline and the Country Guideline. The Prudential Guideline is identified through the strict mapping of a country grade to derive a model-driven acceptable level of country appetite. The Country

Guideline for all graded countries is set by the Credit Committee based on the Prudential Guideline and the internal assessment of country risk. The Country Guideline may therefore be above or below the Prudential Guideline.

Country risk is calculated through the application of Country Loss Given Default (CLGD). All cross-border or domestic foreign currency transactions incur CLGD from the Country Guideline agreed at Credit Committee. The level of CLGD incurred by a counterparty transaction will largely depend on three main factors: the country severity, the product severity and counterparty grade. CLGD is incurred in the country of direct risk, defined as where the majority of operating assets are held. This may differ from the country of incorporation. However, where transactions are secured with collateral, the country risk can be transferred from the country of the borrower to the country of the collateral provider. This is only permitted where the collateral covers the borrowing and is not expected to decrease over time.

Country Managers are in place for all countries where the Group has exposure and they, under the direction of Credit Committee, have responsibility for allocating country risk to individual transactions. The total allocation of country limits is monitored on a daily basis by Group Credit Risk, as headed by the Credit Risk Director. Discretions exist to increase the Country Guideline above the level agreed by Credit Committee where the Country Guideline is below the Prudential Guideline. All requests to increase the Country Guideline in line with individual discretions must be submitted to and applied centrally through Group Credit Risk.

A further mitigant against undesirable concentration of risk is the mandate and scale framework described on page 78. Mandate and scale limits, which can also be set at Group level to reflect overall Risk Appetite, can relate either to the stock of current exposures in the relevant portfolio or to the flow of new exposures into that portfolio. Typical limits include the caps on UK commercial investment property lending, the proportion of lending with maturity in excess of seven years and the proportion of new mortgage business that is buy-to-let. The mandate and scale framework also provides protection against undue concentrations within the collateral held.

Concentrations of credit exposure described in this credit risk management section and the following statistical section are not proportionally related to credit loss. Some segments of the Group s portfolio have and are expected to have proportionally higher credit charges in relation to the exposure than others. Moreover, the volatility of credit loss is different in different parts of the portfolio. Thus, comparatively large credit impairment charges could arise in parts of the portfolio not mentioned here.

Securitisations

In the course of its business, Barclays has traditionally undertaken securitisations of its own originated assets as well as the securitisation of third party assets via sponsored conduit vehicles and shelf programmes.

Barclays has securitised its own originated assets in order to manage the Group s credit risk position, to obtain regulatory capital relief, and to generate term liquidity for the Group balance sheet.

For these transactions Barclays adopts the following roles in the securitisation process:

- Originator of securitised assets
- Executor of securitisation trades including bond marketing and syndication
- Provider of securitisation trade servicing, including data management, investor payments and reporting.

As at the end 2008 Barclays has securitised its own originated retail and commercial mortgages, credit cards and corporate loans across both funded traditional and synthetic transactions.

Barclays acts as an administrator and manager of multi-seller conduits through which interests in third-party-originated assets are securitised and funded via the issuance of asset backed commercial paper. From a regulatory perspective, Barclays would be defined primarily as a sponsor of these conduits.

In relation to such conduit activity, Barclays may provide all or a portion of the backstop liquidity to the commercial paper, programme-wide credit enhancement and, as appropriate, interest rate and foreign currency hedging facilities. Barclays receives fees for the provision of these services.

In addition to the above, Barclays has provided swaps to securitisation vehicles, both those sponsored by Barclays and those sponsored by third

parties, in order to provide hedges against interest rate and/or currency movements. This forms part of Barclays Capital s market making activity in interest rate and foreign exchange products.

Barclays also acts as an investor in third-party securitisations (i.e. where Barclays would not be defined as an originator or a sponsor for regulatory purposes). This includes positions in ABS CDO Super Senior, other US Sub Prime & Alt A and bonds which benefit from monoline credit protection. See Barclays Capital Credit Market Exposures on pages 106 to 118 for further details.

Due to the market disruption experienced since August 2007, the volume of securitisation activity in all forms that Barclays has undertaken has been more limited than previously. In addition, the change in risk weighting of certain assets (for example residential mortgages) and of banks securitisations exposures as a result of the introduction of the Basel II regime means that the extent of regulatory relief obtainable from securitisations has changed.

As such, Barclays own asset securitisation in 2008 was limited mainly to trades where securities have been retained on balance sheet and used as required as in central bank liquidity schemes.

During 2008, Barclays launched Salisbury Receivables Corporations (Salisbury), a multi-seller asset-backed commercial paper conduit modelled after Sheffield Receivables Corporation (Sheffield), which was launched in December 1991. Similar to Sheffield, Salisbury has the ability to issue both US commercial paper (CP) and Euro CP notes to finance client asset-backed receivable transactions. Sponsored conduits primarily fund traditional assets such as credit cards, auto loans, student loans, prime mortgages and trade receivables.

RWAs reported for securitised assets at December 2008 are calculated in line with FSA regulations as well as any individual guidance received from the FSA as at the end of the period. Barclays has approval to use the Internal Ratings Based Approach for the calculation of RWAs. Within this, the Group uses the Internal Assessment Approach and the Supervisory Formula Approach to calculate its regulatory capital requirements arising from its securitisation exposures.

Further information about securitisation activities and accounting treatment is in Note 29. The Group s accounting policies, including those relevant to securitisation activities are on page 193.

For certain transactions, there may be a divergence between the accounting and regulatory treatment of Barclays exposure to securitisations, for example in the treatment of exposure values. This will reflect differing guidance given in the accounting and regulatory regimes which in turn reflect the areas in which the aims of each regime differ.

Barclays employs External Credit Assessment Institutions to provide ratings for its asset backed securities. Their use is dependent on the transaction or asset class involved. For existing transactions, we employ Standard & Poor s, Moody s and Fitch for securitisations of corporate, residential mortgage and other retail exposures and Standard & Poor s and Moody s for securitisations of small and medium-sized entity and revolving retail exposures.

Risk management

Credit risk management

Analysis of total assets and credit risk exposures

	Analysis of total assets								Sub analysis
Assets	**Loans and advances[a] £m**	**Debt securities and other bills [b] £m**	**Derivatives [c] £m**	**Reverse repurchase agreements [d] £m**	**Other £m**	**Assets subject to credit risk £m**	**Assets not subject to credit risk £m**	**Total assets £m**	**Credit market exposures [e] £m**
Cash and balances at central banks					30,019	**30,019**		**30,019**	
Items in the course of collection from other banks					1,695	**1,695**		**1,695**	
Treasury and other eligible bills		4,544				**4,544**		**4,544**	
Debt securities		148,686				**148,686**		**148,686**	4,745
Equity securities [f]							30,535	**30,535**	
Traded loans	1,070					**1,070**		**1,070**	
Commodities [g]							802	**802**	
Total Trading portfolio assets	1,070	153,230				**154,300**	31,337	**185,637**	
Financial assets designated at fair value									
Loans and advances	30,057				130	**30,187**		**30,187**	14,429
Debt securities		8,628				**8,628**		**8,628**	
Equity securities [f]							6,496	**6,496**	
Other financial assets [h]	1,469			7,283	479	**9,231**		**9,231**	
Held on own account	31,526	8,628		7,283	609	**48,046**	6,496	**54,542**	
Held in respect of linked liabilities under investment contracts [i]							66,657	**66,657**	
Derivative financial instruments			984,802			**984,802**		**984,802**	9,234
Loans and advances to banks	47,707					**47,707**		**47,707**	
Loans and advances to customers	461,815					**461,815**		**461,815**	12,808
Debt securities		58,831				**58,831**		**58,831**	727
Equity securities [f]							2,142	**2,142**	
Treasury and other eligible bills		4,003				**4,003**		**4,003**	
Available for sale financial instruments	62,834					**62,834**	2,142	**64,976**	
Reverse repurchase agreements and cash collateral on securities borrowed				130,354		**130,354**		**130,354**	
Other assets					3,096	**3,096**	3,206	**6,302**	109

Current tax assets							389	**389**	
Investments in associates and joint ventures							341	**341**	
Goodwill							7,625	**7,625**	
Intangible assets							2,777	**2,777**	
Property, plant and equipment							4,674	**4,674**	
Deferred tax assets							2,668	**2,668**	
Total on-balance sheet	542,118	224,692	984,802	137,637	35,419	**1,924,668**	128,312	**2,052,980**	
Off-balance sheet:									
Acceptances and endorsements						**585**			
Guarantees and letters of credit pledged as collateral security and securities lending arrangements						**53,942**			
Commitments						**260,816**			1,030
Total off-balance sheet						**315,343**			
Total maximum exposure to credit risk						**2,240,011**			

Notes

a Further analysis of loans and advances is on pages 89 to 102

b Further analysis of debt securities and other bills is on page 103

c Further analysis of derivatives is on pages 104 to 105.

d Reverse repurchase agreements comprise primarily short-term cash lending with assets pledged by counterparties securing the loan.

e Further analysis of Barclays Capital credit market exposures is on pages 106 to 118.

f Equity securities comprise primarily equity securities determined by available quoted prices in active markets.

g Commodities primarily consists of physical inventory positions.

h These instruments consist primarily of loans with embedded derivatives and reverse repurchase agreements designated at fair value.

i Financial assets designated at fair value in respect of linked liabilities to customers under investment contracts have not been further analysed as the Group is not exposed to the risks inherent in these assets.

Credit risk management

Loans and advances

As the granting of credit is one of the Group s major sources of income and its most significant risk, the Group dedicates considerable resources to gaining a clear and accurate understanding of credit risk across the business and ensuring that its balance sheet correctly reflects the value of the assets in accordance with applicable accounting principles. This process can be summarised in the following broad stages:

Measuring exposures and concentrations

Monitoring weakness in exposures

Identifying potential problem loans and credit risk loans (collectively known as potential credit risk loans or PCRLs)

Raising allowances for impaired loans

Writing off assets when the whole or part of a debt is considered irrecoverable

Measuring exposures and concentrations

Loans and advances to customers provide the principal source of credit risk to the Group although Barclays can also be exposed to other forms of credit risk

through loans to banks, loan commitments, contingent liabilities and debt securities . The value of outstanding loans and advances balances, their risk profile, and potential concentrations within them can therefore have a considerable influence on the level of credit risk in the Group.

As at 31st December 2008, total loans and advances to customers and banks net of impairment allowance were £542,118m (2007: £410,789m), a rise of 32% on the previous year. Loans and advances at amortised cost were £509,522m (2007: £385,518m) and loans and advances at fair value were £32,596m (2007: £25,271m). Loans and advances were well distributed across the retail and wholesale portfolios.

Loans and advances were also well spread across industry classifications. Barclays largest sectoral exposure is to home loans which, combined with other personal and business services sectors ,comprise 48% of total loans and advances (2007: 53%). These categories are generally comprised of small loans, have low volatility of credit risk outcomes, and are intrinsically highly diversified. Growth in loans and advances to the financial services sector reflected an increased client base in the fund management business and increases in cash collateral. Loans and advances are further diversified across a number of geographical regions,

Table 1: Loans and advances at amortised cost

As at 31st December 2008	Gross loans and advances £m	Impairment allowance £m	Loans and advances net of impairment £m	Credit risk Loans £m	CRLs % of gross loans and advances %	Impairment charge £m	Loan loss rates basis points
Wholesale customers	**266,750**	**2,784**	**263,966**	**8,144**	**3.1**	**2,540**	**95**
Wholesale banks	**47,758**	**51**	**47,707**	**48**	**0.1**	**40**	**8**
Total wholesale	**314,508**	**2,835**	**311,673**	**8,192**	**2.6**	**2,580**	**82**
Retail customers	**201,588**	**3,739**	**197,849**	**7,508**	**3.7**	**2,333**	**116**
Total retail	**201,588**	**3,739**	**197,849**	**7,508**	**3.7**	**2,333**	**116**
Total	**516,096**	**6,574**	**509,522**	**15,700**	**3.0**	**4,913**	**95**
As at 31st December 2007							
Wholesale customers	187,086	1,309	185,777	5,157	2.8	1,190	64
Wholesale banks	40,123	3	40,120			(13)	(3)
Total wholesale	227,209	1,312	225,897	5,157	2.3	1,177	52
Retail customers	162,081	2,460	159,621	4,484	2.8	1,605	99
Total retail	162,081	2,460	159,621	4,484	2.8	1,605	99
Total	389,290	3,772	385,518	9,641	2.5	2,782	71

Credit Risk Management

Loans and advances

based on location of customers. The majority of Barclays exposure is now outside the UK, reflecting higher rates of growth in the international portfolios as well as the effects of currency movements in 2008.

Barclays also actively monitors exposure and concentrations to sub-investment grade countries (see country risk policy, page 86). Details of the 15 largest sub-investment grade countries, by limit, are shown in figure 3.

Contractual maturity represents a further area of potential concentration. The analysis shown in figure 4 indicates that just over 40% of loans to customers have a maturity of more than five years; the majority of this segment comprises secured home loans.

Barclays risk is therefore spread across a large number of industries and customers and in the case of home loans, for example, well secured. These classifications have been prepared at the level of the borrowing entity. This means that a loan to the subsidiary of a major corporation is classified by the industry in which the subsidiary operates, even through the parent s predominant sphere of activity may be in a different industry.

Corporate and wholesale loans and advances

Gross loans and advances to wholesale customers and banks grew 38% to £314,508m (31st December 2007: £227,209m), largely due to Barclays Capital where loans and advances increased £72,514m (53%).

Credit Risk Loans (CRLs) rose 59% to £8,192m (31st December 2007: £5,157m). As a percentage of gross loans and advances, CRLs increased 13% to 2.6% (31st December 2007: 2.3%). CRL balances were higher in all businesses, reflecting the downturn in economic conditions, with some deterioration across default grades, higher levels of Early Warning List balances and a rise in impairment and loan loss rates in most wholesale portfolios. The largest rises were in Barclays Capital and GRCB Western Europe.

Impairment charges on loans and advances rose 119% (£1,403m) to £2,580m (31st December 2007: £1,177m), primarily in Barclays Capital, although all other businesses were higher than the previous year. Impairment in Barclays Commercial Bank rose in both the Larger and

Table 2: Wholesale loans and advances to customers and banks

As at 31st December 2008	Gross loans and advances £m	Impairment allowance £m	Loans and advances net of impairment £m	Credit risk Loans £m	CRLs % of gross loans and advances %	Impairment charge £m	Loan loss rates basis points
Barclays Commercial Bank	**68,904**	**504**	**68,400**	**1,181**	**1.70**	**414**	**60**
Barclaycard	**301**	**2**	**299**	**20**	**6.60**	**11**	**365**
GRCB Western Europe	**15,432**	**232**	**15,200**	**578**	**3.70**	**125**	**81**
GRCB Emerging Markets	**7,551**	**122**	**7,429**	**191**	**2.50**	**36**	**48**

GRCB Absa	**8,648**	**140**	**8,508**	**304**	**3.50**	**19**	**22**
Barclays Capital	**208,596**	**1,796**	**206,800**	**5,743**	**2.80**	**1,936**	**93**
Barclays Global Investors	**834**		**834**				
Barclays Wealth	**3,282**	**28**	**3,254**	**174**	**5.30**	**28**	**85**
Head office	**960**	**11**	**949**	**1**	**0.10**	**11**	**115**
Total	**314,508**	**2,835**	**311,673**	**8,192**	**2.60**	**2,580**	**82**
As at 31st December 2007							
Barclays Commercial Bank	65,535	483	65,052	956	1.50	292	45
Barclaycard	295	3	292	17	5.80	9	305
GRCB Western Europe	10,927	63	10,864	93	0.90	19	17
GRCB Emerging Markets	4,833	79	4,754	119	2.50	10	21
GRCB Absa	5,321	112	5,209	97	1.80	11	21
Barclays Capital	136,082	514	135,568	3,791	2.80	833	61
Barclays Global Investors	211		211				
Barclays Wealth	2,745	7	2,738	47	1.70		
Head office	1,260	51	1,209	37	2.90	3	24
Total	227,209	1,312	225,897	5,157	2.30	1,177	52

Medium Business divisions. Deterioration in the Spanish commercial and residential property markets led to higher impairment in GRCB Western Europe, while in GRCB Absa, wholesale credit impairment began to rise from a low base and credit indicators began to show deterioration. The loan loss rate on the wholesale and corporate portfolio rose to 82bp (2007: 52bp).

In the wholesale and corporate portfolios impairment allowances increased 116% to £2,835m (31st December 2007: £1,312m).

Barclays largest corporate loan portfolios continue to be in Barclays Capital and Barclays Commercial Bank. Barclays Capital s corporate loan book grew 43% to £72,796m in 2008, driven by the decline in the value of Sterling relative to other currencies as well as drawdowns on existing loan facilities and the extension of new loans at current terms to financial and manufacturing institutions. Loans and advances at amortised cost grew 5% in Barclays Commercial Bank and was focused in lower-risk portfolios in Larger Business.

Portfolio growth rates were higher in the international businesses, where Global Retail and Commercial Banking s wholesale portfolios in Western Europe, Emerging Markets and Absa grew by 40%, 56% and 63%, respectively.

Analysis of Barclays Capital wholesale loans and advances net of impairment allowances

Barclays Capital wholesale loans and advances increased 53% to £208,596m (2007: £136,082m). This was driven by a decline in the value of Sterling relative to other currencies, increased drawdowns on existing corporate lending facilities and the extension of new loans to corporate clients at current terms. Additionally, continuing market volatility resulted in increased cash collateral being placed with clients relating to OTC derivatives.

The corporate lending portfolio, including leveraged finance, increased 47% to £76,556m (2007: £52,258) primarily due to drawdowns on existing loan facilities and the extension of new loans at current terms to financial and manufacturing institutions.

Included within corporate lending and other wholesale lending portfolios are £7,674m of loans backed by retail mortgage collateral.

Barclays Capital loans and advances held at fair value

Barclays Capital loans and advances held at fair value were £19,630m (2007: £18,259m). These assets are primarily made up of US RMBS whole loans and commercial real estate loans, £14,429m of which is discussed within the credit market exposures.

Table 3: Analysis of wholesale loans and advances net of impairment allowances

	Corporate		**Government**		**Settlement balance and cash collateral**		**Other wholesale**		**Total wholesale**	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	20 07
Wholesale	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
BCB	**67,741**	64,773	**659**	279					**68,400**	65,052
Barclaycard	**299**	292							**299**	292
GRCB Western Europe	**15,017**	10,721	**32**	4			**151**	139	**15,200**	10,864
GRCB Emerging Markets	**5,283**	3,276	**1,709**	1,193			**437**	285	**7,429**	4,754
GRCB Absa	**8,480**	5,204	**28**	5					**8,508**	5,209
Barclays Capital	**72,796**	51,038	**3,760**	1,220	**79,418**	46,639	**50,826**	36,671	**206,800**	135,568
BGI	**834**	211							**834**	211

Barclays Wealth	**3,254**	2,738							**3,254**	2,738
Head office	**949**	1,209							**949**	1,209
Total	**174,653**	139,462	**6,188**	2,701	**79,418**	46,639	**51,414**	37,095	**311,673**	225,897

Table 4: Analysis of Barclays Capital s loans and advances at amortised cost

As at 31st December 2008	Gross loans and advances £m	Impairment allowance £m	Loans and advances net of impairment £m	Credit risk Loans £m	CRLs % of gross loans and advances %	Impairment charge £m	Loan loss rates basis points
Loans and advances bank							
Cash collateral and settlement balances	**19,264**		**19,264**				
Interbank lending	**24,086**	**51**	**24,035**	**48**	**0.2**	**40**	**17**
Loans and advances to customers							
Corporate lending	**77,042**	**486**	**76,556**	**1,100**	**1.4**	**305**	**40**
ABS CDO Super Senior	**4,117**	**1,013**	**3,104**	**4,117**	**100.0**	**1,383**	**3,359**
Other wholesale lending	**23,933**	**246**	**23,687**	**478**	**2.0**	**208**	**87**
Cash collateral and settlement balances	**60,154**		**60,154**				
Total	**208,596**	**1,796**	**206,800**	**5,743**	**2.8**	**1,936**	**93**

Credit Risk Management

Loans and advances

Analysis of Barclays Commercial Bank loans and advances

The tables below analyse the industry split of Barclays Commercial Bank loans and advances after impairment allowance of £504m. The loan book consists of both loans and advances held at amortised cost and loans and advances held at fair value.

Loans and advances held at fair value were £12,966m as at 31st December 2008. Of these, £12,360m related to government, local authority and social housing. Fair value exceeds amortised cost by £3,018m. Fair value is calculated using a valuation model with reference

to observable market inputs and is matched by offsetting fair value movements on hedging instruments. The underlying nominal portfolio increased 47% in 2008.

Property balances within loans and advances at amortised cost and held at fair value totalled £16,351m, of which £8,795m related to social housing.

The weighted average of the drawn balance loss given default, for all of the above loans and advances, was 31%.

Table 5: Analysis of Barclays Commercial Bank loans and advances

Loans and advances to banks at amortised cost

	Total £m
Financial institutions and services	867
Total	**867**

Loans and advances to customers at amortised cost

	Total £m
Business and other services	16,611
Construction	3,974
Energy and water	1,112
Financial institutions and services	6,427
Finance Lease receivables	6,644
Manufacturing	8,378
Postal and communications	1,303
Property	8,985

Transport	2,014
Wholesale and retail distribution and leisure	11,426
Government	659
Total	**67,533**

Loans and advances held at fair value

	Total £m
Business and other services	535
Construction	39
Financial institutions and services	32
Property	7,366
Government	4,994
Total	**12,966**

Barclays Commercial Bank financial sponsor leveraged finance

As at 31st December 2008, the exposure relating to financial sponsor related leveraged finance loans in Barclays Commercial Bank was £2,445m, of which £1,875m related to drawn amounts recorded in loans and advances.

Table 6: Barclays Commercial Bank financial sponsor leveraged finance

Leveraged finance exposure by region

As at 31st December 2008	£m
UK	2,111
Europe	323
Other	11
Total lending and commitments	2,445
Underwriting	28
Total exposure	2,473

The industry classification of the exposure was as follows:

Leveraged finance exposure by industry

As at 31st December 2008	Drawn £m	Undrawn £m	Total £m
Business and other services	1,083	288	1,371
Construction	12	5	17
Energy and water	43	17	60
Financial institutions and services	58	10	68
Manufacturing	307	130	437
Postal and communications	35	2	37
Property	26	5	31
Transport	14	43	57
Wholesale and retail distribution and leisure	297	70	367
Total exposure	1,875	570	2,445

Credit Risk Management

Loans and advances

Retail loans and advances

Gross Loans and Advances to retail customers grew 24% to £201,588m (31st December 2007: £162,081m). The principal drivers were GRCB Western Europe, UK Retail Banking, and Barclaycard. The GRCB Western Europe retail portfolio grew by £14,436m (59%) to £38,918m, largely driven by home loans in Spain and Italy, and the appreciation of the Euro against Sterling. The UK Retail Banking portfolio increased by £12,319m (15%) to £96,083m, primarily driven by UK home loans. The Barclaycard Retail portfolios grew by £8,866m (43%) to £29,390m, with growth across the US, UK and Barclaycard s other European card portfolios.

Total home loans to retail customers grew by 27% to £135,077m, driven by the 58% rise in GRCB Western Europe, reflecting currency movements and book growth. The UK home finance portfolios within UK Retail Banking grew 18% to £82,303m (31st December 2007: £69,805m).

Unsecured retail credit (credit card and unsecured loans) portfolios grew 43% to £38,856m (31st December 2007: £27,256m), principally as a result of growth in Barclaycard US and GRCB Western Europe as well as the acquisition of Goldfish in the UK.

Table 7: Retail loans and advances net of impairment allowances

As at 31st December 2008	Gross loans and advances £m	Impairment allowance £m	Loans and advances net of impairment £m	Credit risk Loans £m	CRLs % of gross loans and advances %	Impairment charge £m	Loan loss rates basis points
UK Retail Banking	96,083	1,134	94,949	2,403	2.50	602	63
Barclaycard	29,390	1,677	27,713	2,566	8.70	1,086	370
GRCB Western Europe	38,918	302	38,616	794	2.00	171	44
GRCB Emerging Markets	4,083	191	3,892	179	4.40	130	318
GRCB Absa	24,677	411	24,266	1,518	6.20	328	133
Barclays Wealth	8,437	24	8,413	48	0.60	16	19
Total	201,588	3,739	197,849	7,508	3.70	2,333	116
As at 31st December 2007							
UK Retail Banking	83,764	1,005	82,759	2,063	2.50	559	67
Barclaycard	20,524	1,093	19,431	1,601	7.80	818	399
GRCB Western Europe	24,482	81	24,401	250	1.00	57	23
GRCB Emerging Markets	1,881	44	1,837	67	3.60	29	154
GRCB Absa	24,994	235	24,759	499	2.00	135	54
Barclays Wealth	6,436	2	6,434	4	0.10	7	11
Total	162,081	2,460	159,621	4,484	2.80	1,605	99

Table 8: Analysis of retail loans and advances net of impairment allowances

	Home loans		Cards and unsecured loans		Other retail		Total retail	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	**2007**
	£m	£m	**£m**	£m	**£m**	£m	**£m**	**£m**
UK Retail Banking	**82,303**	69,805	**8,294**	8,297	**4,352**	4,657	**94,949**	82,759
Barclaycard			**23,224**	14,930	**4,489**	4,501	**27,713**	19,431
GRCB Western Europe	**33,760**	21,393	**4,395**	2,660	**461**	348	**38,616**	24,401
GRCB Emerging Markets	**603**	285	**2,900**	1,369	**389**	183	**3,892**	1,837
GRCB Absa	**18,411**	15,136	**43**		**5,812**	9,623	**24,266**	24,759
Barclays Wealth					**8,413**	6,434	**8,413**	6,434
Total	**135,077**	106,619	**38,856**	27,256	**23,916**	25,746	**197,849**	159,621

Home Loans

The Group s principal home loans portfolios continue to be in the UK Retail Banking Home Finance business (61% of the Group s total), GRCB Western Europe (25%) primarily Spain, and South Africa (14%). During the year, the Group managed the risk profile of these portfolios by strengthening underwriting criteria and reducing the maximum loan to value (LTV) ratios, with greater discrimination between purchases and remortgages and, within the UK buy to let (BTL) segment, between portfolio customers and single property investors.

Credit quality of the principal home loan portfolios reflected relatively low levels of high LTV lending. The LTVs on the Group s principal home loan portfolios are shown in table 9. Using recent valuations, the LTV of the portfolios as at 31st December 2008 was 40% for UK Retail Banking s mortgage business, 48% for the Spanish mortgage portfolio within GRCB Western Europe and 41% for GRCB Absa s mortgage portfolio in South Africa. The average LTV for new mortgage business during 2008 at origination for these portfolios was 47% for the UK, 63% for Spain and 58% for South Africa. The percentage of balances with an LTV of over 85% based on current values was 10% for the UK, 5% for Spain and 25% for South Africa. In the UK, BTL mortgages comprised 6.8% the total stock.

Impairment charges rose across the home loan portfolios, reflecting the impact of lower house prices as well as some increase in arrears rates. Three-month arrears as at 31st December 2008 were 0.91% for UK

mortgages, 0.76% for Spain and 2.11% for South Africa. To support the Group s risk profile, we increased collections staff across the businesses and improved operational practices to boost effectiveness.

Credit Cards and Unsecured Loans

The Group s largest card and unsecured loan portfolios are in the UK (47% of Group total). The US accounts for 19%, where Barclaycard s portfolio is largely Prime credit quality (FICO score of 660 or more). To address the impact of economic deterioration and the impact of weaker labour markets on the unsecured portfolios in 2008, the Group used a range of measures to improve new customer quality and control the risk profile of existing customers.

In the UK Cards portfolio, initial credit lines were made more conservative, followed by selective credit limit increases using more accurately assessed customer behaviour. The overall number of credit limit increases were reduced by strengthening qualification criteria and a proportion of higher-risk dormant accounts were closed. Arrears rates in the UK Cards portfolio fell slightly during the year, reflecting measures taken to improve customer quality in 2007 and 2008. Repayment Plan balances grew to support government initiatives to supply relief to customers experiencing financial difficulty. Payment rates in repayment plans remained relatively stable.

As a percentage of the portfolio, three-month arrears rates rose during 2008 to 1.87% for UK Loans and 2.15% for US Cards. The rate reduced to 1.28% for UK Cards.

Table 9: Home loans distribution of balances by loan to value (mark to market[a])

	UK		Spain		South Africa	
	2008	2007	**2008**	2007	**2008**	2007
	%	%	**%**	%	**%**	%
<= 75%	**78.2**	90.1	**86.7**	92.2	**60.5**	68.6
> 75% and <= 80%	**6.1**	4.7	**4.8**	4.2	**7.5**	7.2
> 80% and <= 85%	**5.5**	2.5	**3.7**	1.6	**7.2**	7.1
> 85% and <= 90%	**4.5**	1.5	**1.6**	0.7	**7.6**	5.9
> 90% and <= 95%	**2.5**	0.9	**1.3**	0.6	**6.7**	6.1
> 95%	**3.1**	0.3	**1.9**	0.7	**10.5**	5.1

Portfolio loan-to-value (mark to market)	**40**	34	**48**	45	**41**	38
Average loan-to-value on new mortgages during the year	**47**	49	**63**	63	**58**	59

Table 10: Home loans three-month arrears[a, b]

	As at 31.12.08 %	As at 30.06.08 %	As at 31.12.07 %
UK	**0.91**	0.70	0.63
Spain	**0.76**	0.46	0.24
South Africa	**2.11**	0.96	0.25

Table 11: Unsecured lending three-month arrears[c]

	As at 31.12.08 %	As at 30.06.08 %	As at 31.12.07 %
UK Cards	**1.28**	1.36	1.36
UK Loans	**1.87**	1.40	1.35
US Cards	**2.15**	2.08	1.83

Note

a Based on the following portfolios: UK: UKRB Residential Mortgage and Buy to Let portfolios; Spain: GRCB Western Europe Spanish retail home finance portfolio; South Africa: GRCB Absa retail home finance portfolio.

b Defined as total 90 day + delinquent balances as a percentage of outstandings.

c Defined as total 90 day + delinquent balances as a percentage of outstandings. Excludes legal and repayment plans. UK Cards based on Barclaycard Branded Cards, excluding Goldfish. UK Loans based on Barclayloan. US cards excludes Business Card and US Airways portfolios.

Risk Management

Credit Risk Management

Loans and advances

Monitoring weaknesses in exposures

Barclays actively manages its credit exposures. When weaknesses in exposures are detected either in individual exposures or in groups of exposures the Group takes action to mitigate the risks. Such actions may, for example, include: reducing the amounts outstanding (in discussion with the customers, clients or counterparties if appropriate); using credit derivatives securitising the assets; and, on occasion, selling them.

Corporate accounts that are deemed to contain heightened levels of risk are recorded on graded early warning or watch lists comprising three categories graded in line with the perceived severity of the risk attached to the lending, and its probability of default. These are updated monthly and circulated to the relevant risk control points. Once listing has taken place, exposure is very carefully monitored and, where appropriate, exposure reductions are effected.

Should an account become impaired, it will normally, but not necessarily, have passed through all three categories, which reflect the need for ever-increasing caution and control. Where an obligor s financial health gives grounds for concern, it is immediately placed into the appropriate

category. All obligors, regardless of financial health, are subject to a full review of all facilities on, at least, an annual basis. More frequent interim reviews may be undertaken should circumstances dictate.

Warning list balances rose throughout the year as wholesale credit conditions deteriorated across the regions in which Barclays operates.

Within Local Business, accounts that are deemed to have a heightened level of risk, or that exhibit some unsatisfactory features which could affect viability in the short/medium term, are transferred to a separate Caution stream. Accounts on the Caution stream are reviewed on at least a quarterly basis, at which time consideration is given to continuing with the agreed strategy, returning the customer to a lower risk refer stream, or instigating recovery/exit action.

Within the personal portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow potential weaknesses to be monitored on a portfolio basis. This applies in parts of UK Retail Banking, Barclays Wealth, GRCB s international retail portfolios and Barclaycard. The approach is consistent with the Group s policy of raising a collective impairment allowance as soon as objective evidence of impairment is identified.

CRLs and PPLs balances by UK and non-UK

Notes

a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

b From 1st January 2005, the application of IAS 39 required interest to be recognised on the remaining balance of an impaired financial asset (or group of financial assets) at the effective interest rate for that asset. As a result, interest is credited to the income statement in relation to impaired loans; therefore these loans technically are not classified as non-accrual . In 2005, the Group replaced the non-accrual category with one termed impaired loans . The SEC requires loans to be classified, where applicable, as non-accrual, accruing past due 90

days or more, troubled debt restructurings and potential problem loans.

Potential credit risk loans

In line with disclosure requirements from the Securities Exchange Commission (SEC) in the US, if the credit quality of a loan on an early warning or watch list deteriorates to the highest category, consideration is given to including it within the Potential Problem Loan (PPL) list. PPLs are loans where payment of principal and interest is up to date but where serious doubt exists as to the ability of the borrowers to continue to comply with repayment terms in the near future.

Should further evidence of deterioration be observed, a loan may move to the Credit Risk Loan (CRL) category as required by the SEC. Events that would trigger the transfer of a loan from the PPL to the CRL category could include a missed payment or a breach of covenant.

CRLs comprise three classes of loans:

Impaired loans comprise loans where individual identified impairment allowance has been raised and also include loans which are fully collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

The category accruing past due 90 days or more comprises loans that are 90 days or more past due as to principal or interest. An impairment allowance will be raised against these loans if the expected cash flows discounted at the effective interest rate are less than the carrying value.

The category impaired and restructured loans comprises loans not included above where, for economic or legal reasons related to the debtor s financial difficulties, a concession has been granted to the debtor that would not otherwise be considered. Where the concession results in the expected cash flows discounted at the effective interest rate being less than the loan s carrying value, an impairment allowance will be raised.

In 2007, the term Credit Risk Loans replaced the term Non-Performing Loans (NPLs) as the collective term for the total of these three classes to recognise the fact that the impaired loan category may include loans which, while impaired, are still performing. This category includes drawn ABS CDO Super Senior positions.

Potential Credit Risk Loans (PCRLs) comprise PPLs and CRLs. Figures 5 and 6 show CRL and PPL balances by UK and non-UK. The amounts are shown before deduction of value of security held, impairment allowances (from 2005 onwards) and provisions or interest suspense (2004), all of which might reduce the impact of an eventual loss, should it occur. The significant increase to non-UK CRL and PPL balances, in 2007 and 2008, is principally due to the inclusion of US-located ABS CDO Super Senior positions and other credit market exposures.

Credit Risk Loans

In 2008, CRLs rose 63% to £15,700m (2007: £9,641m). Balances were higher in all businesses as credit conditions deteriorated across Barclays areas of operations and total loans and advances grew. The most notable increases were in Barclays Capital and the non-UK businesses in Global Retail and Commercial Banking.

CRLs and PPLs as a percentage of Loans and Advances

Notes

a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

b From 1st January 2005, the application of IAS 39 required interest to be recognised on the remaining balance of an impaired financial asset (or group of financial assets) at the effective interest rate for that asset. As a result, interest is credited to the income statement in relation to impaired loans; therefore these loans technically are not classified as non-accrual . In 2005, the Group replaced the non-accrual category with one termed impaired loans . The SEC requires loans to be classified, where applicable, as non-accrual, accruing past due 90 days or more, troubled debt restructurings and potential problem loans.

Credit risk management

Loans and advances

CRLs in retail secured mortgage products increased by £1,309m (89%) to £2,783m (2007: £1,474m). The key driver was Absa Home Finance where balances increased significantly as a result of higher interest rates and increasing consumer indebtedness. Increases were also seen in UK Home Finance, reflecting weakening UK house prices and the slowing economy, and in Spain, as economic conditions deteriorated.

CRLs in the unsecured and other retail portfolios increased by £1,715m (57%) to £4,725m (2007: £3,010m). The key drivers for this increase were: Absa, which was impacted by higher interest rates and increasing consumer indebtedness, Barclaycard US, due to deteriorating credit conditions which resulted in rising delinquency rates, asset growth and exchange rate movements, and Spain, as economic conditions deteriorated and consumer indebtedness increased.

Corporate/Wholesale CRLs, excluding ABS CDO Super Senior positions, increased by £2,262m (125%) to £4,075m (2007: £1,813m). The key drivers were: Barclays Capital following a number of credit downgrades; increasing default probabilities; and Spain, primarily due to increases to the property-related names. Balances also increased in Barclays Commercial Bank and Absa Commercial and Banking Business as corporate credit conditions deteriorated, particularly in the last quarter of 2008.

CRLs on ABS CDO Super Senior positions increased £773m (23%) to £4,117m (2007: £3,344m). The majority of this increase resulted from a migration of assets, totalling £801m, from potential problem loans (PPLs) to CRLs.

Potential Problem Loans

Balances within the Group s potential problem loans (PPLs) category rose by £659m to £2,456m (31st December 2007: £1,797m). The principal movements were in the corporate and wholesale portfolios, where PPLs rose £1,463m to £1,959m (31st December 2007: £496m) as credit conditions deteriorated. This rise was offset by a fall in PPLs relating to ABS CDO positions, as those balances moved into the CRL category. Broadly flat PPLs from retail portfolios reflected methodology alignments affecting GRCB Absa which transferred balances of just over £200m previously reported as PPLs to CRLs. This was offset by rises in UK Retail Banking, GRCB Western Europe and GRCB Emerging Markets.

Potential Credit Risk Loans

Combining CRLs and PPLs, total potential credit risk loans (PCRL) balances in the corporate and wholesale portfolios increased by 161% in 2008 to £6,034m (31st December 2007: £2,309m) as a number of names migrated into the CRL and PPL categories, reflecting higher default probabilities in the deteriorating global wholesale environment. PCRLs relating to ABS CDO positions remained stable at £4,117m (31st December 2007: £4,145m).

Total retail PCRL balances increased 61% to £8,005m (31st December 2007: £4,984m) as delinquency rates rose across a number of secured and unsecured portfolios following a deterioration in credit conditions, particularly in the UK, US, Spain and South Africa.

Group PCRL balances rose 59% to £18,156m (31st December 2007: £11,438m). Excluding ABS CDO Super Senior positions, PCRLs increased 92% to £14,039m (31st December 2007: £7,293m).

Table 12: Potential credit risk loans and coverage ratios

	CRLs	PPLs	PCRLs

	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07
Retail Secured	**2,783**	1,474	**280**	317	**3,063**	1,791
Retail Unsecured and other	**4,725**	3,010	**217**	183	**4,942**	3,193
Retail	**7,508**	4,484	**497**	500	**8,005**	4,984
Corporate/Wholesale (excl ABS)	**4,075**	1,813	**1,959**	496	**6,034**	2,309
Group (excl ABS)	**11,583**	6,297	**2,456**	996	**14,039**	7,293
ABS CDO Super Senior	**4,117**	3,344		801	**4,117**	4,145
Group	**15,700**	9,641	**2,456**	1,797	**18,156**	11,438

	Impairment allowance		CRL coverage		PCRL cove rage	
	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07
Retail Secured	**561**	320	**20.2%**	21.7%	**18.3%**	17.9%
Retail Unsecured and other	**3,178**	2,140	**67.3%**	71.1%	**64.3%**	67.0%
Retail	**3,739**	2,460	**49.8%**	54.9%	**46.7%**	49.4%
Corporate/Wholesale (excl ABS)	**1,822**	1,022	**44.7%**	56.4%	**30.2%**	44.3%
Group (excl ABS)	**5,561**	3,482	**48.0%**	55.3%	**39.6%**	47.7%
ABS CDO Super Senior	**1,013**	290	**24.6%**	8.7%	**24.6%**	7.0%
Group	**6,574**	3,772	**41.9%**	39.1%	**36.2%**	33.0%

Impairment Allowances and Coverage Ratios

In 2008, impairment allowances increased 74% to £6,574m (31st December 2007: £3,772m). Excluding ABS CDO Super Senior positions, allowances increased by 60% to £5,561m (31st December 2007: £3,482m). Allowances increased in all businesses as credit conditions deteriorated, but most notably in Barclays Capital and GRCB s international portfolios.

Reflecting this 74% rise in impairment allowance compared with the 63% rise in total CRLs, the Group s CRL coverage ratio rose to 41.9% (31st December 2007: 39.1%). Coverage ratios for PCRLs rose to 36.2% (31st December 2007: 33.0%).

The largest driver for these increases was the near four-fold increase in the impairment held against ABS CDO Super Senior positions as the LGD of these assets increased.

Allowance coverage ratios of CRLs and PCRLs excluding the drawn ABS CDO Super Senior positions decreased to 48.0% (31st December 2007: 55.3%) and 39.6% (31st December 2007: 47.7%), respectively. These movements in coverage ratios reflected:

- An increase in CRLs and PCRLs in the well-secured home loan portfolios.
- Higher CRLs and PCRLs in the corporate sector, where the recovery outlook is relatively high.
- Increased early-cycle delinquent balances in the retail unsecured portfolios, as credit conditions worsened. These earlier-cycle balances, which tend to attract relatively lower impairment requirements, have increased as a proportion of the total delinquent balances.

The decrease in the PCRL coverage ratio, excluding the drawn ABS CDO Super Senior positions, was also driven by the overall increase in PPLs as a proportion of total PCRLs. Since, by definition, PPLs attract lower

levels of impairment than CRLs, a higher proportion of PPLs in total PCRLs will tend to lower the overall coverage ratio.

Allowances for impairment and other credit provisions

Barclays establishes, through charges against profit, impairment allowances and other credit provisions for the incurred loss inherent in the lending book.

Under IFRS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition, and where these events have had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. Impairment of loans and receivables is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset s original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary.

Impairment is measured individually for assets that are individually significant, and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available.

In terms of individual assessment, the trigger point for impairment is formal classification of an account as exhibiting serious financial problems and where any further deterioration is likely to lead to failure. Two key inputs to the cash flow calculation are the valuation of all security and collateral, as well as the timing of all asset realisations, after allowing for all attendant costs. This method applies in the corporate portfolios Barclays Commercial Bank, Barclays Capital and certain areas within GRCB s international portfolios and Barclaycard.

For collective assessment, the trigger point for impairment is the missing of a contractual payment. The impairment calculation is based on a roll-rate approach, where the percentage of assets that move from the initial delinquency to default are derived from statistical probabilities based on experience. Recovery amounts and contractual interest rates are

Notes

a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

Credit risk management

Loans and advances

calculated using a weighted average for the relevant portfolio. This method applies to parts of GRCB s international portfolios, Barclaycard and UK Retail Banking and is consistent with Barclays policy of raising an allowance as soon as impairment is identified.

Unidentified impairment allowances, albeit significantly lower in amount than those reported above, are also raised to cover losses which are judged to be incurred but not yet specifically identified in customer exposures at the balance sheet date, and which, therefore, have not been specifically reported.

The incurred but not yet reported calculation is based on the asset s probability of moving from the performing portfolio to being specifically identified as impaired within the given emergence period and then on to default within a specified period. This is calculated on the present value of estimated future cash flows discounted at the financial asset s original effective interest rate.

The emergence periods vary across businesses and are based on actual experience and are reviewed on an annual basis. This methodology ensures that the Group only captures the loss incurred at the balance sheet date.

These impairment allowances are reviewed and adjusted at least quarterly by an appropriate charge or release of the stock of impairment allowances based on statistical analysis and management judgement.

Where appropriate, the accuracy of this analysis is periodically assessed against actual losses.

As one of the controls of ensuring that adequate impairment allowances are held, movements in impairment allowances to individual names above £10m are presented to the Credit Committee for agreement.

Impairment charges and other credit provisions in 2008

In 2008, total impairment charges increased 94% (£2,624m) to £5,419m (2007: £2,795m). This figure included impairment charges of £506m (2007: £13m) on available for sale assets and reverse repurchase agreements.

Impairment charges on loans and advances and other credit provisions increased 77% (£2,131m) to £4,913m (2007: £2,782m) (see table 1 on page 89) reflecting charges of £1,763m against ABS CDO Super Senior and other credit market exposures and increased impairment in the international portfolios within Global Retail and Commercial Banking. Total loans and advances grew 33% to £516,096m (31st December 2007: £389,290m). As a result, impairment charges on loans and advances and other credit provisions as a percentage of period end Group total loans and advances increased to 0.95% (2007: 0.71%).

In the retail portfolios, impairment charges on loans and advances and other credit provisions rose 45% (£728m) to £2,333m (2007: £1,605m) (see table 1 on page 89) principally as a consequence of increased impairment in the international portfolios, whilst total loans and advances increased 24% to £201,588m (31st December 2007: £162,081m). As a result, impairment charges as a percentage of period end total loans and advances increased to 1.16% (2007: 0.99%).

In the wholesale and corporate portfolios, impairment charges on loans and advances and other credit provisions rose by 119% (£1,403m) to £2,580m (2007: £1,177m) (see table 1 on page 89) whilst total loans and advances increased 38% to £314,508m (31st December 2007: £227,209m). As a result, impairment charges as a percentage of period end total loans and advances increased to 0.82% (2007: 0.52%).

Global Retail and Commercial Banking

Impairment charges in UK Retail Banking increased £43m to £602m (2007: £559m), reflecting growth in the book and deteriorating economic conditions. In UK Home Finance, whilst three month arrears increased from 0.63% to 0.91%, the quality of the book and conservative loan to value ratios meant that the impairment charges and amounts charged off remained low at £24m (2007: £3m release). Impairment charges in Consumer Lending increased 3% reflecting the current economic environment and loan growth.

Table 13: Impairment Charges and Other Credit Provisions

	Year Ended 31.12.08 £m	Year Ended 31.12.07 £m
UK Retail Banking	**602**	559
Barclays Commercial Bank	**414**	292
Barclaycard	**1,097**	827
GRCB Western Europe	**296**	76
GRCB Emerging Markets	**166**	39
GRCB Absa	**347**	146
Barclays Capital	**419**	64
Barclays Wealth	**44**	7
Head office functions and other operations	**11**	3
Group Total	**3,396**	2,013
ABS CDO Sub-Prime and other credit Market Provisions	**1,763**	782
Group Total (Including ABS CDO)	**5,159**	2,795
Other AFS Assets and Reverse Repos	**260**	
Group Total (Including ABS CDO and AFS/Reverse Repos)	**5,419**	2,795

Note

a 2004 does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

The impairment charge in Barclays Commercial Bank increased £122m to £414m (2007: £292m), primarily reflecting higher impairment losses in Larger Business, particularly in the final quarter as the UK corporate credit environment deteriorated.

The impairment charge in Barclaycard increased £270m (33%) to £1,097m (2007: £827m), reflecting higher charges in Barclaycard International portfolios, particularly Barclaycard US which was driven by loan growth, rising delinquency due to deteriorating economic conditions and exchange rate movements; and £68m from the inclusion of Goldfish. These factors were partially offset by lower charges in UK Cards and secured consumer lending.

Impairment charges in GRCB Western Europe increased £220m to £296m (2007: £76m) principally due to deteriorating economic trends and asset growth in Spain, where there were higher charges in the commercial portfolios as a consequence of the slowdown in the property and construction sectors. In addition higher household indebtedness and rising unemployment has driven up delinquency and charge-offs in the personal sector.

Impairment charges in GRCB Emerging Markets increased £127m to £166m (2007: £39m), reflecting: weakening credit conditions which adversely impacted delinquency trends in the majority of the retail portfolios; asset growth, particularly in India; and increased wholesale impairment in Africa.

Impairment charges in GRCB Absa increased £201m to £347m (2007: £146m) as a result of rising delinquency levels in the retail portfolios, which have been impacted by rising interest and inflation rates and increasing consumer indebtedness.

Investment Banking and Investment Management

Barclays Capital impairment charges of £2,423m (2007: £846m) included a charge of £1,763m (2007: £782m) against ABS CDO Super Senior and other credit market positions. Further impairment charges of £241m were incurred in respect of available for sale assets and reverse repurchase

agreements (2007: £nil). Other impairment charges increased £355m to £419m (2007: £64m) and primarily related to charges in the private equity and other loans business.

The impairment charge in Barclays Wealth increased £37m to £44m (2007: £7m) from a very low base. This increase reflected both the substantial increase in the loan book over the last three years and the impact of the current economic environment on client liquidity and collateral values.

The impairment charge in Head Office Functions and Other Operations increased £8m to £11m (2007: £3m) mainly reflecting losses on Floating Rate Notes held for hedging purposes. An additional £19m (2007: £nil) of impairment charges were incurred on available for sale assets.

Writing-off of assets

After an advance has been identified as impaired and is subject to an impairment allowance, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write-off will occur when, and to the extent that, the whole or part of a debt is considered irrecoverable.

The timing and extent of write-offs may involve some element of subjective judgement. Nevertheless, a write-off will often be prompted by a specific event, such as the inception of insolvency proceedings or other formal recovery action, which makes it possible to establish that some or the entire advance is beyond realistic prospect of recovery. In any event, the position of impaired loans is reviewed at least quarterly to ensure that irrecoverable advances are being written off in a prompt and orderly manner and in compliance with any local regulations.

Such assets are only written off once all the necessary procedures have been completed and the amount of the loss has been determined.

Subsequent recoveries of amounts previously written off are written back and hence decrease the amount of the reported loan impairment charge in the income statement.

Total write-offs of impaired financial assets increased by £956m to £2,919m (2007: £1,963m).

Note

a Does not reflect the application of IAS 32, IAS 39 and IFRS 4 which became effective from 1st January 2005.

Credit risk management

Loans and advances

Risk Tendency

In 2008, Risk Tendency increased 58% (£1,355m) to £3,710m (31st December 2007: £2,355m), compared with 32% growth in the Group s loans and advances balances. This was reflective of the higher credit risk profile, weakening credit conditions across our main businesses, and changing mix, as a consequence of planned growth, in a number of businesses and portfolios. Risk Tendency in 2008 also increased as a result of the weakening of Sterling against a number of other foreign currencies, including the US Dollar and the Euro.

UK Retail Banking Risk Tendency increased £50m to £520m (31st December 2007: £470m). This reflected a higher risk profile in the unsecured and secured loans portfolios, weakening UK credit conditions, and asset growth, primarily in the Home Finance portfolio.

Risk Tendency in Barclays Commercial Bank increased £95m to £400m (31st December 2007: £305m). This reflected the deteriorating UK corporate credit environment and asset growth.

Barclaycard Risk Tendency increased £520m to £1,475m (31st December 2007: £955m) primarily reflecting the inclusion of new business acquisitions (£260m) as well as asset growth, exchange rate movements, and the economic conditions in the US. Risk Tendency in the UK Cards portfolio remained stable as improvements in portfolio quality were offset by deterioration in the UK economic environment.

Risk Tendency at GRCB Western Europe increased £135m to £270m (31st December 2007: £135m) principally reflecting weakening credit conditions across Europe, particularly in Spain, asset growth and movements in the Euro/Sterling exchange rate.

Risk Tendency at GRCB Emerging Markets increased £210m to £350m (31st December 2007: £140m) reflecting weakening credit conditions across the majority of regions, a change in the risk profile following a broadening of the product offering through new product launches and new market entry in India and UAE, and asset growth.

Risk Tendency at GRCB Absa increased £65m to £255m (31st December 2007: £190m) reflecting weakening retail and, to a lesser extent, corporate credit conditions in South Africa and asset growth and movements in the Rand/Sterling exchange rate.

Risk Tendency in Barclays Capital increased £275m to £415m (31st December 2007: £140m) reflecting credit downgrades and asset growth. The drawn liquidity facilities on ABS CDO Super Senior positions are classified as credit risk loans and therefore no Risk Tendency is calculated on them.

Risk Tendency at Barclays Wealth increased £10m to £20m (31st December 2007: £10m) reflecting a weakening credit risk profile and asset growth.

Notes

a Excludes ABS CDO Super Senior positions as these are classified as credit risk loans and therefore no Risk Tendency is calculated on them.

b Head office functions and other operations comprise discontinued businesses in transition.
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Credit risk management

Debt securities and other bills

The following table presents an analysis of the credit quality of debt and similar securities, other than loans held within the Group. Securities rated as investment grade amounted to 91.6% of the portfolio (2007: 88.0%).

As at 31.12.08	Treasury and other eligible bills £m	Debt securities £m	Total £m	%
AAA to BBB (investment grade)	**7,314**	**198,493**	**205,807**	**91.6**
BB+ to B	**1,233**	**15,309**	**16,542**	**7.4**
B or lower		**2,343**	**2,343**	**1.0**
Total	**8,547**	**216,145**	**224,692**	**100.0**
Of which issued by:				
governments and other public bodies	**8,547**	**73,881**	**82,428**	**36.7**
US agency		**34,180**	**34,180**	**15.3**
mortgage and asset-backed securities		**34,844**	**34,844**	**15.5**
corporate and other issuers		**55,244**	**55,244**	**24.6**
bank and building society certificates of deposit		**17,996**	**17,996**	**7.9**
Total	**8,547**	**216,145**	**224,692**	**100.0**
Of which classified as:				
trading portfolio assets	**4,544**	**148,686**	**153,230**	**68.2**
financial instruments designated at fair value		**8,628**	**8,628**	**3.8**
available-for-sale securities	**4,003**	**58,831**	**62,834**	**28.0**
Total	**8,547**	**216,145**	**224,692**	**100.0**

As at 31.12.07	Treasury and other eligible bills £m	Debt securities £m	Total £m	%
AAA to BBB (investment grade)	4,114	189,794	193,908	88.0
BB+ to B	703	24,693	25,396	11.5
B or lower		1,181	1,181	0.5
Total	4,817	215,668	220,485	100.0
Of which issued by:				
governments and other public bodies	4,817	63,798	68,615	31.1
US agency		13,956	13,956	6.3
mortgage and asset-backed securities		28,928	28,928	13.1
corporate and other issuers		88,207	88,207	40.0
bank and building society certificates of deposit		20,779	20,779	9.5
Total	4,817	215,668	220,485	100.0
Of which classified as:				
trading portfolio assets	2,094	152,778	154,872	70.2
financial instruments designated at fair value		24,217	24,217	11.0
available-for-sale securities	2,723	38,673	41,396	18.8
Total	4,817	215,668	220,485	100.0

Credit risk management

Derivatives

The use of derivatives and their sale to customers as risk management products are an integral part of the Group s trading activities. These instruments are also used to manage the Group s own exposure to fluctuations in interest, exchange rates and commodity and equity prices as part of its asset and liability management activities.

Barclays Capital manages the trading derivatives book as part of the market risk book. This includes foreign exchange, interest rate, equity, commodity and credit derivatives. The policies regarding market risk management are outlined in the market risk management section on pages 119 to 123.

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward rate agreements, futures, options and combinations of these instruments and primarily affect the Group s net interest income, net trading income, net fee and commission income and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the balance sheet.

The Group participates both in exchange traded and over the counter derivatives markets.

Exchange traded derivatives

The Group buys and sells financial instruments that are traded or cleared on an exchange, including interest rate swaps, futures and options on futures. Holders of exchange traded instruments provide margin daily with cash or other security at the exchange, to which the holders look for ultimate settlement.

Over the counter traded derivatives

The Group also buys and sells financial instruments that are traded over the counter, rather than on a recognised exchange.

These instruments range from commoditised transactions in derivative markets, to trades where the specific terms are tailored to the requirements of the Group s customers. In many cases, industry standard documentation is used, most commonly in the form of a master agreement, with individual transaction confirmations. The existence of a signed master agreement is intended to give the Group protection in situations where a counterparty is in default.

Foreign exchange derivatives

The Group s principal exchange rate related contracts are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer generally receives a premium at the start of the option period.

Interest rate derivatives

The Group s principal interest rate related contracts are interest rate swaps, forward rate agreements, basis swaps, caps, floors and swaptions. Included in this product category are transactions that include combinations of these features.

An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. A basis swap is a form of interest rate swap, in which both parties exchange interest payments based on floating rates, where the floating rates are based upon different underlying reference indices. In a forward

rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount. The settlement, which generally occurs at the start of the contract period, is the discounted present value of the payment that would otherwise be made at the end of that period.

Credit derivatives

The Group s principal credit derivative-related contracts include credit default swaps and total return swaps. A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection.

A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

A total return swap is an instrument whereby the seller of protection receives the full return of the asset, including both the income and change in the capital value of the asset. The buyer in return receives a predetermined amount.

Equity derivatives

The Group s principal equity-related contracts are equity and stock index swaps and options (including warrants, which are equity options listed on an exchange). An equity swap is an agreement between two parties to exchange periodic payments, based upon a notional principal amount, with one side paying fixed or floating interest and the other side paying based on the actual return of the stock or stock index. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock, basket of stocks or stock index at a specified price or level on or before a specified date. The Group also enters into fund-linked derivatives, being swaps and options whose underlyings include mutual funds, hedge funds, indices and multi-asset portfolios.

Commodity derivatives

The Group s principal commodity-related derivative contracts are swaps, options, forwards and futures. The main commodities transacted are base metals, precious metals, oil and oil-related products, power and natural gas.

The tables below set out the fair values of the derivative assets together with the value of those assets subject to enforceable counterparty netting arrangements for which the Group holds offsetting liabilities and eligible collateral.

Derivative assets As at 31.12.08	Gross assets £m	Counterparty netting £m	Net exposure £m
Foreign exchange	107,730	91,572	16,158
Interest rate	615,321	558,985	56,336
Credit derivatives	184,072	155,599	28,473
Equity and stock index	28,684	20,110	8,574
Commodity derivatives	48,995	35,903	13,092
	984,802	862,169	122,633
Total collateral held			54,905
Net exposure less collateral			67,728

Derivative assets As at 31.12.07	Gross assets £m	Counterparty netting £m	Net exposure £m
Foreign exchange	30,824	22,066	8,758
Interest rate	140,504	117,292	23,212
Credit derivatives	38,696	31,307	7,389
Equity and stock index	13,296	12,151	1,145
Commodity derivatives	24,768	15,969	8,799
	248,088	198,785	49,303
Total collateral held			16,700
Net exposure less collateral			32,603

Gross derivative assets of £985bn (2007: £248bn) cannot be netted down under IFRS. Derivative assets would be £917bn (2007: £215bn) lower than reported under IFRS if counterparty or collateral netting were allowed.

Exposure relating to derivatives, repurchase agreements, reverse repurchase agreements, stock borrowing and loan transactions is calculated using internal, FSA approved models. These are used as the basis to assess both regulatory capital and capital appetite and are managed on a daily basis. The methodology encompasses all relevant factors to enable the current value to be calculated and the future value to be estimated, for example: current market rates, market volatility and legal documentation (including collateral rights).

Credit risk management

Barclays Capital credit market exposures

Barclays Capital s credit market exposures primarily relate to US residential mortgages, commercial mortgages and leveraged finance businesses that have been significantly impacted by the continued deterioration in the global credit markets. The exposures include both significant positions subject to fair value movements in the profit and loss account and positions that are classified as loans and advances and available for sale. None of the exposure disclosed below has been reclassified to loans and advances under the amendments to IAS 39.

The exposures are set out by asset class in US Dollars and Sterling below:

		$ma		£ma	
		As at	As at	**As at**	As at
US Residential Mortgages	Notes	**31.12.08**	31.12.07	**31.12 .08**	31.12.07
ABS CDO Super Senior	A1	**4,526**	9,356	**3,104**	4,671
Other US sub- prime	A2	**5,017**	10,089	**3,441**	5,037
Alt-A	A3	**6,252**	9,847	**4,288**	4,916
US RMBS exposure wrapped by monoline insurers	A4	**2,389**	1,462	**1,639**	730
Commercial mortgages					
Commercial real estate	B1	**16,882**	22,239	**11,578**	11,103
Commercial mortgage-backed securities	B1	**1,072**	2,596	**735**	1,296
CMBS exposure wrapped by monoline insurers	B2	**2,703**	395	**1,854**	197
Other Credit Market Exposures					
Leveraged finance**b**	C1	**15,152**	18,081	**10,391**	9,027
SIVs and SIV-Lites	C2	**1,404**	1,570	**963**	784
CDPCs	C3	**218**	39	**150**	19
CLO and other exposure wrapped by monoline insurers	C4	**7,202**	817	**4,939**	408

These exposures have been actively managed during the year in an exceptionally challenging market environment and have been reduced by net sales and paydowns of £6,311m, offset by the 37% appreciation of the US Dollar against Sterling. In January 2009, there was an additional sale of £3,056m of leveraged finance exposure which was repaid at par. Exposures at 31st December 2008 included £1,060m of securities from the acquisition of Lehman Brothers North American businesses. Exposures wrapped by monolines have increased during the course of 2008 as a result of declines in the fair value of the underlying assets.

Analysis of Barclays Capital credit market exposures by asset class

	ABS CDO Super Senior £m	Other US sub -prime £m	Alt-A £m	RMBS Wrapped by Monoline insurers £m	Commercial real estate loans £m	Commercial mortgage backed securities £m	CMBS wrapped by monoline insurers £m	Leveraged finance £m	SIVs and SIV-Lites £m	CDPCs £m	CLO and other exposure wrapped by monoline insurers £m	As at 31.12.08 £m
Debt securities		782	2,532			1,420			11			**4,745**
Trading portfolio assets		782	2,532			1,420			11			**4,745**
Loans and advances		1,565	778		11,555				531			**14,429**
		1,565	778		11,555				531			**14,429**

Financial assets designated at fair value												
Derivative financial instruments		643	398	1,639	23	(685)	1,854		273	150	4,939	**9,234**
Loans and advances to customers	3,104	195						9,361	148			**12,808**
Debt securities		147	580									**727**
Available for sale financial instruments		147	580									**727**
Other assets		109										**109**
Exposure on balance sheet	**3,104**	**3,441**	**4,288**	**1,639**	**11,578**	**735**	**1,854**	**9,361**	**963**	**150**	**4,939**	

Notes

a As the majority of exposure is held in US Dollars the exposures above are shown in both US Dollars and Sterling .

b Included within the total leveraged finance exposure of £10,391m is £1,030m of off-balance sheet commitments.

There were gross losses of £8,053m (2007: £2,999m) in the year to 31st December 2008. These losses were partially offset by related income and hedges of £1,433m (2007: £706m), and gains of £1,663m (2007: £658m) from the general widening of credit spreads on issued notes measured at fair value through the profit and loss account.

The gross losses, which included £1,763m (2007: £782m) in impairment charges, comprised: £5,584m (2007: £2,811m) against US RMBS exposures; £1,488m (2007: £14m) against commercial mortgage exposures; and £981m (2007: £174m) against other credit market exposures.

	Fair Value Losses £m	Impairment Charge £m	Gross Losses £m
ABS CDO super senior	(78)	(1,383)	**(1,461)**
Other US sub-prime	(1,560)	(168)	**(1,728)**
Alt-A	(1,858)	(125)	**(1,983)**
US RMBS wrapped by monoline insurers	(412)		**(412)**
Total US residential mortgages	**(3,908)**	**(1,676)**	**(5,584)**
US	(671)		**(671)**
Europe	(350)		**(350)**
Total commercial real estate	**(1,021)**		**(1,021)**
Commercial mortgage-backed securities	(127)		**(127)**
CMBS wrapped by monoline insurers	(340)		**(340)**
Total commercial mortgages	**(1,488)**		**(1,488)**
SIVs and SIV-Lites	(143)	(87)	**(230)**
CDPCs	(14)		**(14)**
CLO and other assets wrapped by monoline insurers	(737)		**(737)**
Total other credit market	**(894)**	**(87)**	**(981)**
Total	**(6,290)**	**(1,763)**	**(8,053)**

Credit risk management

Barclays Capital credit market exposures

A. US Residential Mortgages

US residential mortgage exposures have reduced by 41% in US Dollar terms, and 19% in Sterling terms, since 31st December 2007.

A1. ABS CDO Super Senior

During the year ABS CDO Super Senior exposures reduced by £1,567m to £3,104m (31st December 2007: £4,671m). Net exposures are stated after write-downs and charges of £1,461m incurred in 2008 (2007: £1,816m) and hedges of £nil (31st December 2007: £1,347m). There were no hedges in place at 31st December 2008 as the corresponding liquidity facilities had been terminated. There were liquidations and paydowns of £2,318m in the year; weaker Sterling and a reduction in hedges increased exposure by £865m and £1,347m respectively.

The remaining ABS CDO Super Senior exposure at 31st December 2008 comprised five high grade liquidity facilities which were fully drawn and classified within loans and receivables, and no remaining mezzanine exposure. At 31st December 2007 there were 15 facilities of which nine were high grade and six mezzanine.

The impairment assessment of remaining super senior positions is based on cash flow methodology using standard market assumptions such as default curves and remittance data to calculate the net present value of the future losses for the collateral pool over time. As a result, future potential impairment charges depend on changes in these assumptions.

We have included all ABS CDO Super Senior exposure in the US residential mortgages section as nearly 90% of the underlying collateral relates to US RMBS. The impairment applied to the notional collateral is set out in the table below.

	As at 31.12.08		As at 31.12.07			As at 31.12.08	As at 31.12.07
	High Grade £m	Total £m	High Grade £m	Mezzanine £m	Total £m	Marks [a]	Marks [a]
2005 and earlier	**1,226**	**1,226**	1,458	1,152	2,610	**90%**	69%
2006	**471**	**471**	1,654	314	1,968	**37%**	47%
2007 and 2008	**25**	**25**	176	87	263	**69%**	53%
Sub-prime	**1,722**	**1,722**	3,288	1,553	4,841	**75%**	60%
2005 and earlier	**891**	**891**	714	102	816	**77%**	96%
2006	**269**	**269**	594	68	662	**75%**	90%
2007 and 2008	**62**	**62**	163	13	176	**37%**	80%
Alt-A	**1,222**	**1,222**	1,471	183	1,654	**74%**	92%
Prime	**520**	**520**	662	123	785	**100%**	100%
RMBS CDO	**402**	**402**	842	445	1,287		19%
Sub-prime second lien	**127**	**127**	158		158		32%
Total RMBS	**3,993**	**3,993**					